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# ACCA F3

# Financial Accounting

Exam Kit

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# EXAM KIT

ACCA

# Paper F3

## Financial Accounting

Emile Woolf International
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# Contents

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# Syllabus and study guide

## Aim

To develop knowledge and understanding of the underlying principles and concepts relating to financial accounting and technical proficiency in the use of double-entry accounting techniques including the preparation of basic financial statements.

## Main capabilities

On successful completion of this paper, you should be able to:

**A** Explain the context and purpose of financial reporting

**B** Define the qualitative characteristics of financial information

**C** Demonstrate the use of double entry and accounting systems

**D** Record transactions and events

**E** Prepare a trial balance (including identifying and correcting errors)

**F** Prepare basic financial statements for incorporated and unincorporated entities.

**G** Prepare simple consolidated financial statements

**H** Interpret financial statements

## Rationale

The syllabus for Paper FFA/F3, *Foundations of Financial Accounting*, introduces the candidate to the fundamentals of the regulatory framework relating to accounts preparation and to the qualitative characteristics of useful information. The syllabus then covers drafting financial statements and to principles of accounts preparation. The syllabus then concentrates in depth on recording, processing, and reporting business transactions and events. The syllabus then covers the use of the trial balance and how to identify and correct errors, and then the preparation of financial statements for incorporated and unincorporated entities. The syllabus then moves in two directions, firstly requiring candidates to be able to conduct a basic interpretation of financial statements; and secondly requiring the preparation of simple consolidated financial statements from the individual financial statements of group incorporated entities.

## Syllabus

### A The context and purpose of financial reporting

1. The scope and purpose of, financial statements for external reporting
2. Users' and stakeholders' needs
3. The main elements of financial reports
4. The regulatory framework (legislation and regulation, reasons and limitations, relevance of accounting standards)
5. Duties and responsibilities of those charged with governance

### B The qualitative characteristics of financial information

1. The qualitative characteristics of financial reporting

### C The use of double-entry and accounting systems

1. Double-entry book-keeping principles including the maintenance of accounting records and sources of information
2. Ledger accounts, books of prime entry and journals

### D Recording transactions and events

1. Sales and purchases
2. Cash
3. Inventory
4. Tangible non-current assets
5. Depreciation
6. Intangible non-current assets and amortisation
7. Accruals and prepayments
8. Receivables and payables
9. Provisions and contingencies
10. Capital structure and finance costs

### E Preparing a trial balance

1. Trial balance
2. Correction of errors
3. Control accounts and reconciliations
4. Bank reconciliations
5. Suspense accounts

**F Preparing basic financial statements**

1 Statements of financial position
2 Income statements and statements of comprehensive income
3 Disclosure notes
4 Events after the reporting period
5 Statements of cash flows (excluding partnerships)
6 Incomplete records

**G Preparing simple consolidated financial statements**

1 Subsidiaries
2 Associates

**H Interpretation of financial statements**

1 Importance and purpose of analysis of financial statements
2 Ratios
3 Analysis of financial statements

# Approach to examining the syllabus

The syllabus is assessed by a two hour paper-based or computer-based examination. Questions will assess all parts of the syllabus and will include both computational and non-computational elements. The examination will consist of 50 two mark questions.

# Study guide

## A The context and purpose of financial reporting

### 1 The scope and purpose of, financial statements for external reporting

(a) Define financial reporting – recording, analysing and summarising financial data.

(b) Identify and define types of business entity – sole trader, partnership, limited liability company.

(c) Recognise the legal differences between a sole trader, partnership and a limited liability company.

(d) Identify the advantages and disadvantages of operating as a limited liability company, sole trader or partnership.

(e) Understand the nature, principles and scope of financial reporting.

### 2 Users' and stakeholders' needs

(a) Identify the users of financial statements and state and differentiate between their information needs.

### 3 The main elements of financial reports

(a) Understand and identify the purpose of each of the main financial statements.

(b) Define and identify assets, liabilities, equity, revenue and expenses.

### 4 The regulatory framework

(a) Understand the role of the regulatory system including the roles of the IFRS Foundation (IFRSF), the International Accounting Standards Board (IASB), the IFRS Advisory Council IFRS AC) and the IFRS Interpretations Committee (IFRS IC).

(b) Understand the role of International Financial Reporting Standards.

### 5 Duties and responsibilities of those charged with governance

(a) Explain what is meant by governance specifically in the context of the preparation of financial statements.

(b) Describe the duties and responsibilities of directors and other parties covering the preparation of the financial statements.

## B The qualitative characteristics of financial information

### 1 The qualitative characteristics of financial reporting

(a) Define, understand and apply accounting concepts and qualitative characteristics:

- (i) Fair presentation
- (ii) Going concern
- (iii) Accruals
- (iv) Consistency
- (v) Materiality
- (vi) Relevance
- (vii) Reliability
- (viii) Faithful representation
- (ix) Substance over form
- (x) Neutrality
- (xi) Prudence
- (xii) Completeness
- (xiii) Comparability
- (xiv) Understandability

(xv) Business entity concept

(b) Understand the balance between qualitative characteristics.

## C The use of double-entry and accounting systems

### 1 Double-entry book-keeping principles including the maintenance of accounting records

(a) Identify and explain the function of the main data sources in an accounting system.

(b) Outline the contents and purpose of different types of business documentation, including: quotation, sales order, purchase order, goods received note, goods despatched note, invoice, statement, credit note, debit note, remittance advice, receipt.

(c) Understand and apply the concept of double entry accounting and the duality concept.

(d) Understand and apply the accounting equation.

(e) Understand how the accounting system contributes to providing useful accounting information and complies with organisational policies and deadlines.

(f) Identify the main types of business transactions e.g. sales, purchases, payments, receipts.

### 2 Ledger accounts, books of prime entry and journals

(a) Identify the main types of ledger accounts and books of prime entry, and understand their nature and function.

(b) Understand and illustrate the uses of journals and the posting of journal entries into ledger accounts.

(c) Identify correct journals from given narrative.

(d) Illustrate how to balance and close a ledger account.

## D Recording transactions and events

### 1 Sales and purchases

(a) Record sale and purchase transactions in ledger accounts.

(b) Understand and record sales and purchase returns.

(c) Understand the general principles of the operation of a sales tax.

(d) Calculate sales tax on transactions and record the consequent accounting entries.

(e) Account for discounts allowed and discounts received.

 

## 2 Cash

(a) Record cash transactions in ledger accounts.

(b) Understand the need for a record of petty cash transactions.

## 3 Inventory

(a) Recognise the need for adjustments for inventory in preparing financial statements.

(b) Record opening and closing inventory.

(c) Identify the alternative methods of valuing inventory.

(d) Understand and apply the IASB requirements for valuing inventories.

(e) Recognise which costs should be included in valuing inventories.

(f) Understand the use of continuous and period end inventory records.

(g) Calculate the value of closing inventory using FIFO (first in, first out) and AVCO (average cost).

(h) Understand the impact of accounting concepts on the valuation of inventory.

(i) Identify the impact of inventory valuation methods on profit and on assets.

## 4 Tangible non-current assets

(a) Define non-current assets.

(b) Recognise the difference between current and non-current assets.

(c) Explain the difference between capital and revenue items.

(d) Classify expenditure as capital or revenue expenditure.

(e) Prepare ledger entries to record the acquisition and disposal of non-current assets.

(f) Calculate and record profits or losses on disposal of non-current assets in the income statement including part-exchange transactions.

(g) Record the revaluation of a non-current asset in ledger accounts, the statement of comprehensive income and the statement of financial position.

(h) Calculate the profit or loss on disposal of a revalued asset.

(i) Illustrate how non-current asset balances and movements are disclosed in financial statements.

(j) Explain the purpose and function of an asset register.

 

## 5 Depreciation

(a) Understand and explain the purpose of depreciation.

(b) Calculate the charge for depreciation using straight line and reducing balance methods.

(c) Identify the circumstances where different methods of depreciation would be appropriate.

(d) Illustrate how depreciation expense and accumulated depreciation are recorded in ledger accounts.

(e) Calculate depreciation on a revalued non-current asset, including the transfer of excess depreciation between the revaluation reserve and retained earnings.

(f) Calculate the adjustments to depreciation necessary if changes are made in the estimated useful life and/or residual value of a non-current asset.

(g) Record depreciation in the income statement and statement of financial position.

## 6 Intangible non-current assets and amortisation

(a) Recognise the difference between tangible and intangible non-current assets.

(b) Identify types of intangible assets.

(c) Identify the definition and treatment of 'research costs' and 'development costs' in accordance with International Financial Reporting Standards.

(d) Calculate amounts to be capitalised as development expenditure or to be expensed from given information.

(e) Explain the purpose of amortisation.

(f) Calculate and account for the charge for amortisation.

## 7 Accruals and prepayments

(a) Understand how the matching concept applies to accruals and prepayments.

(b) Identify and calculate the adjustments needed for accruals and prepayments in preparing financial statements.

(c) Illustrate the process of adjusting for accruals and prepayments in preparing financial statements.

(d) Prepare the journal entries and ledger entries for the creation of an accrual or prepayment.

(e) Understand and identify the impact on profit and net assets of accruals and prepayments.

## 8 Receivables and payables

(a) Explain and identify examples of receivables and payables.

(b) Identify the benefits and costs of offering credit facilities to customers.

(c) Understand the purpose of an aged receivables analysis.

(d) Understand the purpose of credit limits.

(e) Prepare the bookkeeping entries to write off a bad (irrecoverable) debt.

(f) Record a bad (irrecoverable) debt recovered.

(g) Identify the impact of bad (irrecoverable) debts on the income statement and on the statement of financial position.

(h) Prepare the bookkeeping entries to create and adjust an allowance for receivables.

(i) Illustrate how to include movements in the allowance for receivables in the income statement and how the closing balance of the allowance should appear in the statement of financial position.

(j) Account for contras between trade receivables and payables.

(k) Prepare, reconcile and understand the purpose of supplier statements.

(l) Classify items as current or non-current liabilities in the statement of financial position.

## 9 Provisions and contingencies

(a) Understand the definition of 'provision', 'contingent liability' and 'contingent asset'.

(b) Distinguish between and classify items as provisions, contingent liabilities or contingent assets.

(c) Identify and illustrate the different methods of accounting for provisions, contingent liabilities and contingent assets.

(d) Calculate provisions and changes in provisions.

(e) Account for the movement in provisions.

(f) Report provisions in the final accounts.

## 10 Capital structure and finance costs

(a) Understand the capital structure of a limited liability company including:

- (i) Ordinary shares
- (ii) Preference shares (redeemable and irredeemable)
- (iii) Loan notes.

(b) Record movements in the share capital and share premium accounts.

(c) Identify and record the other reserves which may appear in the company statement of financial position.

(d) Define a bonus (capitalisation) issue and its advantages and disadvantages.

(e) Define a rights issue and its advantages and disadvantages.

(f) Record and show the effects of a bonus (capitalisation) issue in the statement of financial position.

(g) Record and show the effects of a rights issue in the statement of financial position.

(h) Record dividends in ledger accounts and the financial statements.

(i) Calculate and record finance costs in ledger accounts and the financial statements.

(j) Identify the components of the statement of changes in equity.

## E Preparing a trial balance

### 1 Trial balance

(a) Identify the purpose of a trial balance.

(b) Extract ledger balances into a trial balance.

(c) Prepare extracts of an opening trial balance.

(d) Identify and understand the limitations of a trial balance.

### 2 Correction of errors

(a) Identify the types of error which may occur in bookkeeping systems.

(b) Identify errors which would be highlighted by the extraction of a trial balance.

(c) Prepare journal entries to correct errors.

(d) Calculate and understand the impact of errors on the income statement, statement of comprehensive income and statement of financial position.

### 3 Control accounts and reconciliations

(a) Understand the purpose of control accounts for accounts receivable and accounts payable.

(b) Understand how control accounts relate to the double-entry system.

(c) Prepare ledger control accounts from given information.

(d) Perform control account reconciliations for accounts receivable and accounts payable.

(e) Identify errors which would be highlighted by performing a control account reconciliation.

(f) Identify and correct errors in control accounts and ledger accounts.

**4 Bank reconciliations**

(a) Understand the purpose of bank reconciliations.

(b) Identify the main reasons for differences between the cash book and the bank statement.

(c) Correct cash book errors and/or omissions.

(d) Prepare bank reconciliation statements.

(e) Derive bank statement and cash book balances from given information.

(f) Identify the bank balance to be reported in the final accounts.

**5 Suspense accounts**

(a) Understand the purpose of a suspense account.

(b) Identify errors leading to the creation of a suspense account.

(c) Record entries in a suspense account.

(d) Make journal entries to clear a suspense account.

## F Preparing basic financial statements

### 1 Statements of financial position

(a) Recognise how the accounting equation, accounting treatments as stipulated within D, E and examinable documents and business entity convention underlie the statement of financial position.

(b) Understand the nature of reserves.

(c) Identify and report reserves in a company statement of financial position.

(d) Prepare a statement of financial position or extracts as applicable from given information using accounting treatments as stipulated within Section D, E and examinable documents.

(e) Understand why the heading retained earnings appears in a company statement of financial position.

## 2 Income statements and statements of comprehensive income

(a) Prepare a income statement and statement of comprehensive income or extract as applicable from given information using accounting treatments as stipulated within Section D, E and examinable documents.

(b) Understand how accounting concepts apply to revenue and expenses.

(c) Calculate revenue, cost of sales, gross profit, profit for the year and total comprehensive income from given information.

(d) Disclose items of income and expenditure in the income statement.

(e) Record income taxes in the income statement of a company, including the under and over-provision of tax in the prior year.

(f) Understand the interrelationship between the statement of financial position, income statement and statement of comprehensive income.

(g) Identify items requiring separate disclosure on the face of the income statement.

## 3 Disclosure notes

(a) Explain the purpose of disclosure notes.

(b) Draft the following disclosure notes

- i) Non-current assets including tangible and intangible assets
- ii) Provisions
- iii) Events after the reporting period
- iv) Inventory

## 4 Events after the reporting period

(a) Define an event after the reporting period in accordance with International Financial Reporting Standards.

(b) Classify events as adjusting or non-adjusting.

(c) Distinguish between how adjusting and non-adjusting events are reported in the financial statements.

## 5 Statements of cash flows (excluding partnerships)

(a) Differentiate between profit and cash flow.

(b) Understand the need for management to control cash flow.

(c) Recognise the benefits and drawbacks to users of the financial statements of a statement of cash flows.

(d) Classify the effect of transactions on cash flows.

(e) Calculate the figures needed for the statement of cash flows including:

  (i) Cash flows from operating activities

  (ii) Cash flows from investing activities

  (iii) Cash flows from financing activities

(f) Calculate the cash flow from operating activities using the indirect and direct method.

(g) Prepare statements of cash flows and extracts from statements of cash flow from given information.

(h) Identify the treatment of given transactions in a company's statement of cash flows.

### 6 Incomplete records

(a) Understand and apply techniques used in incomplete record situations:

  (i) Use of accounting equation

  (ii) Use of ledger accounts to calculate missing figures

  (iii) Use of cash and/or bank summaries

  (iv) Use of profit percentages to calculate missing figures.

## G Preparing simple consolidated financial statements

### 1 Subsidiaries

(a) Define and describe the following terms in the context of group accounting:

  (i) Parent

  (ii) Subsidiary

  (iii) Control

  (iv) Consolidated or group financial statements

  (v) Non-controlling interest

  (vi) Trade/simple investment

(b) Identify subsidiaries within a group structure

(c) Describe the components of and prepare a consolidated statement of financial position or extracts thereof including:

  (i) Fair value adjustments at acquisition on land and buildings (excluding depreciation adjustments)

  (ii) Fair value of consideration transferred from cash and shares (excluding deferred and contingent consideration)

(iii) Elimination of inter-company trading balances (excluding cash and goods in transit)

(iv) Removal of unrealised profit arising from inter-company trading

(v) Acquisition of subsidiaries part-way through the financial year

(d) Calculate goodwill (excluding impairment of goodwill) using the full goodwill method only as follows:

| | |
|---|---|
| Fair value of consideration | X |
| Fair value of non-controlling interest | X |
| Less fair value of net assets at acquisition | (X) |
| Goodwill at acquisition | X |

(e) Describe the components of and prepare a consolidated statement of comprehensive income or extracts thereof including:

(i) Elimination of inter-company trading balances (excluding cash and goods in transit)

(ii) Removal of unrealised profit arising on inter-company trading

(iii) Acquisition of subsidiaries part way through the financial year

### 2 Associates

(a) Define and identify an associate and significant influence and identify the situations where significant influence or participating interest exists.

(b) Describe the key features of a parent-associate relationship and be able to identify an associate within a group structure.

(c) Describe the principle of equity accounting

## H Interpretation of financial statements

### 1 Importance and purpose of analysis of financial statements

(a) Describe how the interpretation and analysis of financial statements is used in a business environment.

(b) Explain the purpose of interpretation of ratios.

### 2 Ratios

(a) Calculate key accounting ratios:

(i) Profitability

(ii) Liquidity

(iii) Efficiency

(iv) Position

(b) Explain the interrelationships between ratios

## 3 Analysis of financial statements

(a) Calculate and interpret the relationship between the elements of the financial statements with regard to profitability, liquidity, efficient use of resources and financial position.

(b) Draw valid conclusions from the information contained within the financial statements and present these to the appropriate user of the financial statements.

e

# Exam techniques

## Six steps to exam success

### 1 Know your subject

It sounds obvious, but you really need to know all topics in the syllabus – ACCA can test you on any area of the syllabus so even those topics you think might 'never come up' could be on your next exam. Whatever the format, questions require that you have learnt definitions, know key words and their meanings and understand concepts, theories and rules.

### 2 Know your exam structure

Do you know how many questions you need to attempt? Do you know how long you exam is? What type of questions come up? Knowing this is essential!

The F3 exam is two hours long and has 50 objective test questions.

### 3 Practice makes perfect

One of the best ways to prepare for your actual exam is to try lots of past questions under timed conditions.

Attempt ALL of the questions in this exam kit and compare your answers with the answers to see what you need to improve on and the areas you need to go back and revise! Go back and revise and then reattempt questions if you get any wrong.

## 4 Time yourself

If you are sitting an exam worth 90 marks in two hours, you should aim to spend 1.3 minutes on each mark. A good technique recommended by an ACCA examiner is to batch questions. So, for example, 10 two-mark questions will take you roughly 13 minutes. After 13 minutes move on to the next batch, even if you haven't finished the first – you can always come back to questions later if you have time at the end. Make sure that you have double-checked your strategy of how you are going to allocate your time before you go into the exam and that you are comfortable answering 50 questions in two hours.

Since you don't need to attempt the questions in order (even in the computer-based exam), a good strategy could be to attempt the 'easy' questions (such as those you either know or you don't) at the beginning and save those that involve calculations or a bit more thought to the end.

## 5 Read the questions carefully

When you read, be very careful about the words do and do not, or true and false.

## 6 Don't panic

If you don't know the answer to a question, don't panic. Eliminate the options you know are incorrect and see if the answer becomes more obvious. There is no negative marking in the exam, so even if you guess the answer you have a good chance of getting the question right.

SECTION 1

# Q&A

# Objective test questions

## The context and purpose of financial reporting

**1** Which of the following groups of external users of financial statements need financial information about a company to assess its ability to pay dividends in the future?

**A** Investors and potential investors

**B** Employees

**C** Customers

**D** The government ***(1 mark)***

**2** Which of the following bodies deals with any uncertainty as to how IFRS should be applied?

**A** IASCF

**B** IASB

**C** SAC

**D** IFRIC ***(1 mark)***

**3** Which of the following statements are true?

(1) Accounting can be described as the recording and summarising of transactions of a financial nature.

(2) Companies are owned and managed by their shareholders.

**A** 1 only

**B** 2 only

**C** Neither 1 nor 2

**D** Both 1 and 2 ***(2 marks)***

**4** Eva wishes to set up a confectionery business. It is important to her that her financial information remains confidential.

Which type of business structure is most appropriate for Eva?

**A** Sole trader

**B** Partnership

**C** Company ***(1 mark)***

**5** Which of the following statements are correct about sole traders and companies?

1 The equity capital of a company is the amount of cash contributed to the business by its shareholders.

2 Sole traders might be required to make their financial statements available for public inspection.

3 The statement of financial position of a sole trader should not include any non-current liabilities.

**A** Statement 1 only is correct.

**B** Statement 2 only is correct.

**C** Statement 3 only is correct.

**D** None of the statements are correct. ***(2 marks)***

**6** Is the following statement true or false?

Financial reporting by companies is more extensively regulated than financial reporting by sole traders.

**A** True

**B** False ***(1 mark)***

**7** What is the role of the International Accounting Standards Board?

**A** To enforce the application of international financial reporting standards by companies globally

**B** To develop and encourage the adoption of international financial reporting standards by companies globally ***(1 mark)***

**8** Which of the following statements about the IASB Framework are true?

(1) The Framework is not an accounting standard.

(2) The Framework aids in the harmonisation of accounting practice.

(3) The Framework provides guidance on the most appropriate accounting treatment of an item where no relevant accounting standard exists.

(4) The Framework assists users in the interpretation of financial statements.

**A** (1) (2) (3) and (4) are all correct.

**B** (2), (3) and (4) only are correct.

**C** (2) and (4) only are correct.

**D** (1) and (3) only are correct. ***(2 marks)***

**9** When an item of expense is capitalised, it is:

**A** excluded from the statement of financial position

**B** paid for out of the capital of a business entity

**C** treated as a liability in the statement of financial position

**D** treated as an asset in the statement of financial position. ***(2 marks)***

# Qualitative characteristics of financial information

**10** 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** The use of a degree of caution in making estimates required under conditions of uncertainty

**B** Ensuring that accounting records and financial statements are free from material error

**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)***

**11** 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)***

**12** 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)***

**13** 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 ***(1 mark)***

**14** Which of the following four statements about accounting concepts or principles are correct?

(1) The money measurement concept is that items in accounts are initially measured at their historical cost.

(2) In order to achieve comparability it may sometimes be necessary to override the prudence concept.

(3) To facilitate comparisons between different entities it is helpful if accounting policies and changes in them are disclosed.

(4) To comply with the law, the legal form of a transaction must always be reflected in financial statements.

**A** 1 and 3

**B** 1 and 4

**C** 3 only

**D** 2 and 3 ***(2 marks)***

**15** Which of the following statements about accounting concepts and conventions are correct?

(1) The money measurement concept requires all assets and liabilities to be accounted for at historical cost.

(2) The substance over form convention means that the economic substance of a transaction should be reflected in the financial statements, not necessarily its legal form.

(3) The realisation concept means that profits or gains cannot normally be recognised in the income statement until realised.

 

(4) The application of the prudence concept means that assets must be understated and liabilities must be overstated in preparing financial statements.

**A** 1 and 3

**B** 2 and 3

**C** 2 and 4

**D** 1 and 4 ***(2 marks)***

**16** Which one of the following statements is correct?

**A** Items must be excluded from the financial statements if they are immaterial.

**B** It is a legal requirement that the legal form of a transaction must always be shown in the financial statements of a company.

**C** In times of rising prices, the use of historical cost accounting will tend to overstate profits and understate assets.

**D** Unless financial information is provided in a timely manner, it might lose its relevance. ***(2 marks)***

**17** A property company received cash for property rentals totalling $738,400 during the year to 31 December 2009. Figures for rent received in advance and rent in arrears at the beginning and end of the year were as follows.

| | **31 December** 2008 | **31 December 2009** |
|---|---|---|
| | $ | $ |
| Rent received in advance | 125,300 | 77,700 |
| Rent in arrears<br>(all subsequently paid, no bad debts) | 39,600 | 41,100 |

What amount should appear in the company's income statement for the year ended 31 December 2009 for rental income?

**A** $689,300

**B** $616,100

**C** $860,700

**D** $787,500 ***(2 marks)***

**18** Is the following statement true or false?

Financial statements presented on the going concern basis show assets at their realisable value

**A** True

**B** False ***(1 mark)***

**19** Is the following statement true or false?

The correct definition of an asset is 'a resource owned by an entity as a result of past events and from which future economic benefits are expected to flow'.

**A** True

**B** False ***(1 mark)***

**20** The IASB Framework identifies two assumptions that underlie the preparation of the financial statements. They are:

**A** going concern and prudence

**B** accruals and consistency

**C** going concern and accruals

**D** accruals and prudence ***(2 marks)***

**21** Which of the following is an application of the business entity concept?

**A** A sole trader paying their personal tax bill from the business bank account accounts for it as drawings

**B** Each transaction has an equal and opposite effect

**C** The directors of a company are treated as employees for the purpose of accounting

**D** Separate capital and current accounts are maintained for each partner ***(2 marks)***

**22** Which of the following items might need to be changed in value if the going concern assumption for a business entity is no longer appropriate?

1 Non-current assets

2 Inventory

3 Trade payables

4 Bank loan

**A** 1 only

**B** 1 and 2 only

**C** 1, 2 and 3 only

**D** 1, 2, 3 and 4 ***(2 marks)***

## The accounting equation and double-entry book-keeping

**23** Who issues a goods delivery note and what is its purpose?

**A** It is issued by the customer. Its purpose is to check against the purchase order and actual goods received

**B** It is issued by the supplier. Its purpose is to check against the sales order and actual goods to be delivered

**C** It is issued by the customer. Its purpose is to check against the sales order and actual goods to be delivered

**D** It is issued by the supplier. Its purpose is to check against the purchase order and actual goods received ***(2 marks)***

**24** Don sold goods on credit to VJ but VJ returned them because they were faulty.

Which of the following statements would be true?

**A** Don would send a credit note to VJ

**B** Don would send a statement to VJ

 

**C** VJ would send a credit note to Don

**D** VJ would send an invoice to Don ***(2 marks)***

**25** Applying the accounting equation, which of the following might also occur when the amount of a liability of a business entity is increased?

1 An expense is incurred.

2 Another liability is reduced in amount

3 An asset is reduced

**A** 1 and 2 only

**B** 2 only

**C** 2 and 3 only

**D** 1 and 3 only ***(2 marks)***

**26** Grane provides the following information about her business:

| | $ |
|---|---|
| Net assets at 30 September 2010 | 23,900 |
| Capital introduced in the year to 30 September 2010 | 1,000 |
| Profits in the year | 5,600 |
| Drawings in the year | 3,250 |

What was the balance on Grane's capital account at 1 October 2009?

**A** $20,550

**B** $27,250

**C** $31,750

**D** $14,650 ***(2 marks)***

**27** The equity capital of a business would change as a result of:

**A** a liability being paid from cash in the business bank account

**B** a machine for use in the business being purchased on credit

**C** sundry expenses being paid in cash

**D** payment being received from a credit customer ***(1 mark)***

**28** Butler provides the following information about his business:

| | $ |
|---|---|
| Total assets at 31 August 2010 | 134,700 |
| Capital at 1 September 2009 | 49,750 |
| Drawings during the year ending 31 August 2010 | 12,000 |
| Profit for the year ending 31 August 2010 | 35,000 |

Butler did not inject any further capital during the year.

Butler's total liabilities at 31 August 2010 were:

**A** $72,750

**B** $61,950

**C** $49,750

**D** $84,950 ***(2 marks)***

**29** Theo started a business on 1st January 2009 with $10,000 capital. During his first year of trading he made a profit of $13,000 and paid a further $2,000 into the business. He took goods costing $250 and with a selling price of $400 for personal use and at the year end his assets totalled $54,000 and his liabilities totalled $32,000.

What were Theo's cash drawings during the year?

**A** $2,750

**B** $3,000

**C** $2,600

**D** $3,250 ***(2 marks)***

**30** Which of the following provides the correct formula to find the drawings of the proprietor of a business during a given period?

**A** Closing capital – Opening capital + Profit – Capital injections

**B** Change in net assets + Profit – Capital injections

**C** Opening net assets – Closing capital – Profit + Capital injections

**D** Profit + Capital injections – Increase in net assets ***(2 marks)***

**31** The following information is available for a sole trader who keeps no accounting records.

| | $ |
|---|---|
| Net business assets at 1 July 2009 | 186,000 |
| Net business assets at 30 June 2010 | 274,000 |
| During the year ended 30 June 2010: | |
| Cash drawings by proprietor | 68,000 |
| Additional capital introduced by proprietor | 50,000 |
| Business cash used to buy 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 2010?

**A** $126,000

**B** $50,000

**C** $86,000

**D** $90,000 ***(2 marks)***

**32** Which ONE of the following is **not** a book of prime entry?

**A** Journal

**B** Purchases returns day book

**C** Receivables ledger

**D** Petty cash book ***(1 mark)***

**33** Chris started a washing and ironing business by transferring her washing machine, worth $200, into the business. How should this transaction be recorded?

**A** Dr Capital $200, Cr Machine $200

**B** Dr Machine $200, Cr Drawings $200

**C** Dr Machine $200, Cr Capital $200

**D** Dr Machine $200, Cr Bank $200 ***(1 mark)***

**34** For which of the following journal entries is the narrative description correct?

| Transaction | | Debit | Credit |
|---|---|---|---|
| | | $ | $ |
| 1 | Receivables | 21,700 | |
| | Sales | | 21,700 |
| | Sales for cash | | |
| 2 | Sales returns | 1,400 | |
| | Purchases | | 1,400 |
| | Return of goods to suppliers | | |
| 3 | Bank | 3,700 | |
| | Drawings | | 3,700 |
| | Drawings from the business by the owner | | |
| 4 | Bank | 800 | |
| | Electricity charges | | 800 |
| | Refund of overpayment of electricity charges from the electricity company | | |

**A** Transaction 1

**B** Transaction 2

**C** Transaction 3

**D** Transaction 4 ***(2 marks)***

**35** For which of the following journal entries is the narrative description correct?

| Transaction | | Debit | Credit |
|---|---|---|---|
| | | $ | $ |
| 1 | Receivables | 950 | |
| | Discounts allowed | | 950 |
| | Discounts allowed to customers for early payment | | |

| | | | |
|---|---|---|---|
| 2 | Motor vehicles | 80,000 | |
| | Bank | | 20,000 |
| | Payables | | 60,000 |
| | Purchase of a new car, part with cash and part on credit | | |
| 3 | Bank | 10,000 | |
| | Interest charges | 500 | |
| | Loan | | 10,500 |
| | Repayment to bank of loan with interest | | |
| 4 | Capital | 15,000 | |
| | Bank | | 15,000 |
| | New capital introduced to the business by the owner | | |

**A** Transaction 1

**B** Transaction 2

**C** Transaction 3

**D** Transaction 4 ***(2 marks)***

**36** The following balances have been extracted from the main ledger accounts of Hudd, but the figure for bank loan is missing. There are no other accounts in the main ledger.

| | $ |
|---|---|
| Receivables | 33,000 |
| Plant and equipment | 120,000 |
| Capital | 66,000 |
| Purchases | 140,000 |
| Sales | 280,000 |
| Other expenses | 110,000 |
| Purchase returns | 2,000 |
| Payables | 27,000 |
| Bank (cash in bank) | 18,000 |
| Bank loan | ? |

What is the balance on the bank loan account?

**A** $32,000 credit

**B** $36,000 credit

**C** $46,000 credit

**D** $50,000 credit ***(2 marks)***

**37** In which of the following books of original entry would the purchase of a non-current asset on credit be initially recorded?

**A** Purchase day book

**B** Cash payments book

**C** The journal

**D** Non-current asset register **(1 mark)**

**38** A company's account for equipment at cost at 31 December 2009 is as follows:

**Equipment at cost**

| | | | |
|---|---|---|---|
| | $ | | $ |
| Balance b/f | 69,300 | Disposal | 14,600 |
| Additions | 28,900 | Balance c/f | 83,600 |
| | 98,200 | | 98,200 |

What opening balance should be included in the following period's trial balance for equipment at cost at 1 January 2010?

**A** $83,600 debit

**B** $83,600 credit

**C** $98,200 debit

**D** $98,200 credit **(2 marks)**

## Recording transactions: sales, purchases and cash

**39** What is the correct entry in the main ledger accounts for a total of transactions recorded initially in the sales day book?

**A** Debit Receivables, Credit Sales tax, Credit Sales

**B** Debit Receivables, Debit Sales tax, Credit Sales

**C** Debit Sales, Credit Sales tax, Credit Receivables

**D** Debit Sales, Debit Sales tax, Credit Receivables **(1 mark)**

**40** What is the correct entry in the accounts arising from the following page from a purchases day book?

| | Gross | Sales tax | Net |
|---|---|---|---|
| | $ | $ | $ |
| Jenkins | 470 | 70 | 400 |
| Lottie | 235 | 35 | 200 |
| Bill | 329 | 49 | 280 |
| | 1,034 | 154 | 880 |

**A** Debit Payables $1,034, Credit Sales tax $154, Credit Purchases $880

**B** Debit Payables $880, Debit Sales tax $154, Credit Purchases $1,034

**C** Debit Purchases $1,034, Credit Sales tax $154, Credit Payables $880

**D** Debit Purchases $880, Debit Sales tax $154, Credit Payables $1,034 ***(1 mark)***

**41** Which of the following result in a debit entry to the payables account?

(1) Cash paid to suppliers

(2) Purchase returns

(3) Discounts received

(4) Contra with receivables

**A** All of them

**B** None of them

**C** 1 only

**D** 1, 3 and 4 ***(2 marks)***

**42** Which of the following is **not** true?

**A** The total from the sales day book is posted to the receivables control account in the general ledger

**B** Each invoice in the purchases day book is posted to the individual accounts in the purchase ledger

**C** The total of the discounts column in the cash receipts book is posted to the discounts received account

**D** The total of the sales tax column in the purchase returns day book is credited to the sales tax account ***(1 mark)***

**43** Which of the following statements are true?

(1) If output tax exceeds input tax, the difference is recoverable from the authorities.

(2) Sales tax is not included in the reported sales and purchases of the business.

(3) Sales tax is a form of indirect taxation.

**A** 1 and 2 only

**B** 1 and 3 only

**C** 2 and 3 only

**D** 3 only ***(2 marks)***

**44** Grieg returned goods to Bach that had a net value of $400. What entries are required to record this transaction in Bach's accounts if sales tax is payable at 17.5%?

**A** Dr Returns inward $400, Cr Sales tax $70, Cr Grieg $400

**B** Dr Sales Returns $400, Dr Sales tax $70, Cr Grieg $470

**C** Dr Grieg $470, Cr Returns inward $400, Cr Sales tax $70

**D** Dr Returns inward $400, Dr Sales tax $70, Cr Grieg $470 ***(2 marks)***

 

**45** Wright recorded the following transactions in the month of July:

| | |
|---|---|
| Sales | $611 inclusive of sales tax at 17.5% |
| Purchases | $320 net of sales tax |

What amount is payable to/recoverable from the tax authorities in respect of July's transactions?

**A** $35.00 payable

**B** $35.00 recoverable

**C** $50.93 payable

**D** $50.93 recoverable ***(2 marks)***

**46** At 31st January 2010, Angela owes the tax authorities $27,981. During the month of February, she recorded the following transactions:

Sales of $200,000 exclusive of 17.5% sales tax

Purchases of $141,000 inclusive of sales tax

What is the balance on Angela's sales tax account at the end of February?

**A** $13,981

**B** $38,306

**C** $41,981

**D** $17,656 ***(2 marks)***

**47** The purchases account is:

**A** credited with the total of purchases made, including sales tax

**B** credited with the total of purchases made, excluding sales tax

**C** debited with the total of purchases made, including sales tax

**D** debited with the total of purchases made, excluding sales tax ***(1 mark)***

**48** Tanney has extracted the following balances from her accounts:

| | $ |
|---|---:|
| Car | 18,000 |
| Property | 200,000 |
| Inventory | 3,990 |
| Payables and accruals | 4,321 |
| Receivables and prepayments | 5,600 |
| Bank overdraft | 90 |
| Loan | 45,000 |
| Capital | 90,000 |
| Drawings | 19,000 |

| | |
|---|---|
| Sales | 380,000 |
| Purchases | 199,500 |
| Carriage in | 3,000 |
| Discounts allowed | 3,270 |
| Discounts received | ? |
| Sundry expenses | 73,890 |

She has forgotten to extract the balance from the discounts received account. What is the balance?

**A** $6,839

**B** $7,019

**C** $479

**D** $5,521 ***(2 marks)***

**49** James sells goods to Bond with a list price of $4,000. As Bond is a regular customer, James gives a 5% trade discount and also offers a 2% settlement discount for payment within 10 days.

What amount should James record as a sale?

**A** $4,000

**B** $3,800

**C** $3,920

**D** $3,720 ***(2 marks)***

**50** Orinoco purchases goods with a list price of $5,600. The supplier gives him a trade discount of $200 and also offers a 2% discount for payment within 7 days.

Orinoco pays within the required 7 days.

What amounts should be recorded in Orinoco's financial statements?

| | Purchase | Discount received | Cash payment |
|---|---|---|---|
| | $ | $ | $ |
| **A** | $5,600 | 312 | 5,288 |
| **B** | $5,400 | 108 | 5,292 |
| **C** | $5,600 | 308 | 5,292 |
| **D** | $5,400 | 112 | 5,288 |

***(2 marks)***

**51** Jermaine sold goods with a tax exclusive list price of $300 to Janet. He gave her a 5% trade discount and offered a further 2% discount if Janet paid within 5 days.

Jermaine is registered for sales tax at 10%.

What amount of sales tax should Jermaine charge?

**A** $28.50

**B** $30.00

**C** $27.93

**D** $27.90 ***(2 marks)***

# Inventory

**52** Eloise started a small pottery business on 1 January 2010. She provides the following information for her first year of trading:

| | $ | |
|---|---|---|
| Sales | 34,900 | |
| Pottery in inventory at the year end | 2,700 | Note 1 |
| Purchases of materials | 17,950 | Note 2 |

Note 1: Included within this figure are ten cracked vases. They cost $100 each to make and Eloise expects to sell them for $20 each.

Note 2: Included in the cost of materials is $500 which Eloise paid to her supplier for delivery.

What is Eloise's gross profit for 2010?

**A** $19,350

**B** $18,850

**C** $19,450

**D** $19,950 ***(2 marks)***

**53** Hamish Duncan runs a sole trader business selling office furniture. On 12th August 2010, he employed his wife as a marketing assistant for the business and took a desk from the store room for her to use in the office.

What is the double entry for this transaction?

**A** Dr Cost of sales Cr Non-current assets

**B** Dr Cost of sales Cr Drawings

**C** Dr Non-current assets Cr Cost of sales

**D** Dr Drawings Cr Cost of sales ***(1 mark)***

**54** The inventory value for the financial statements of Q for the year ended 31st December 2009 was based on an inventory count on 4th January 2010, which gave a total inventory value of $836,200.

Between 31st December and 4th January 2010, 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 31st December 2009?

**A** $838,100

**B** $853,900

**C** $818,500

**D** $834,300 ***(2 marks)***

**55** A company with an accounting date of 31st October carried out a physical check of inventory on 4th November 2010, leading to an inventory value at cost at this date of $483,700.

Between 1st November 2010 and 4th November 2010 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 31st October 2010 for closing inventory, based on this information?

**A** $458,700

**B** $505,900

**C** $508,700

**D** $461,500 ***(2 marks)***

**56** 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)***

 

**57** Which of the following are correct?

1 The value of inventory in the statement of financial position must be as close as possible to net realisable value.

2 The valuation of finished goods inventory should 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 only ***(2 marks)***

**58** What journal entry is required to record goods taken from inventory by the owner of a business, assuming a period-end system of accounting for inventory?

**A** Debit Drawings, Credit Purchases

**B** Debit Sales, Credit Drawings

**C** Debit Drawings, Credit Inventory

**D** Debit Purchases, Credit Drawings ***(2 marks)***

**59** 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 2010.

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

| | | Dr | Cr |
|---|---|---|---|
| | | $ | $ |
| **A** | Inventory account | 180,000 | |
| | Income statement | | 180,000 |
| | Income statement | 220,000 | |
| | Inventory account | | 220,000 |
| **B** | Income statement | 180,000 | |
| | Inventory account | | 180,000 |
| | Inventory account | 220,000 | |
| | Income statement | | 220,000 |
| **C** | Inventory account | 40,000 | |
| | Purchases account | | 40,000 |
| **D** | Purchases account | 40,000 | |
| | Inventory account | | 40,000 |

***(2 marks)***

**60** IAS2 *Inventories* defines the extent to which overheads are included in the cost of inventories of finished goods.

Which of the following statements about the IAS2 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)***

**61** At 30th September 2009 the closing inventory of a company amounted to $386,400. The following items were included in this total at cost:

(1) One thousand items which had cost $18 each. These items were all sold in October 2009 for $15 each, with selling expenses of $800.

(2) Five items which had been in inventory since 1988, when they were purchased for $100 each, sold in October 2009 for $1,000 each, net of selling expenses.

What figure should appear in the company's statement of financial position at 30th September 2009 for inventory?

**A** $382,600

**B** $384,200

**C** $387,100

**D** $400,600 ***(2 marks)***

**62** 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)***

**63** A company received a delivery of goods on 28 December 2009 which was included in inventory at 31 December 2009. The invoice for the goods was recorded in January 2010. What effect does this have on the business?

 

**A** The profit for the year to 31 December 2009 will be overstated and inventory at 31 December 2009 will be stated correctly.

**B** The profit for the year to 31 December 2009 will be overstated and inventory at 31 December 2009 will be overstated.

**C** The profit for the year to 31 December 2010 will be overstated and inventory at 31 December 2009 will be stated correctly.

**D** The profit for the year to 31 December 2010 will be overstated and inventory at 31 December 2009 will be overstated.

**64** 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** | Inventory account | 800 | |
| | Purchases account | | 800 |
| **B** | Drawings account | 800 | |
| | Purchases account | | 800 |
| **C** | Sales account | 1,600 | |
| | Drawings account | | 1,600 |
| **D** | Drawings account | 1,600 | |
| | Sales account | | 1,600 |

***(2 marks)***

**65** The closing inventory at cost of a company at 31 January 2010 amounted to $284,700. The following items were *included* at cost in the total:

(1) 400 coats that had cost $80 each and normally sold for $150 each. Owing to a defect in manufacture, they were all sold after the balance sheet date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.

(2) 800 skirts that had cost $20 each. These too were found to be defective. Remedial work in February 2010 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)***

**66** A company values its inventory using the first in, first out (FIFO) method. At 1st May 2009 the company had 700 engines in inventory, valued at $190 each.

During the year ended 30th April 2010 the following transactions took place:

What is the value of the company's closing inventory of engines at 30th April 2010?

| | | | |
|---|---|---|---|
| **2009** | | | |
| 1st July | Purchased | 500 engines | at $220 each |
| 1st November | Sold | 400 engines | for $160,000 |
| **2010** | | | |
| 1st February | Purchased | 300 engines | at $230 each |
| 15th April | Sold | 250 engines | for $125,000 |

What is the value of the company's closing inventory of engines at 30th April 2010?

**A** $188,500

**B** $195,500

**C** $166,000

**D** None of these figures ***(2 marks)***

**67** Which of the following inventory valuation methods is likely to lead to the lowest figure for closing inventory at a time when prices are rising?

**A** Average cost

**B** First in, first out (FIFO) ***(1 mark)***

**68** What are the correct journal entries to record inventory at the year end?

| | Opening inventory | Closing inventory |
|---|---|---|
| **A** | – | Dr Inventory<br>Cr Income statement |
| **B** | – | Dr Inventory<br>Cr Purchases |
| **C** | Dr Inventory<br>Cr Income statement | Dr Income statement<br>Cr Inventory |
| **D** | Dr Income statement<br>Cr Inventory | Dr Inventory<br>Cr Income statement |

***(2 marks)***

**69** Which of the following statements are correct for the purpose of inventory valuation in the statement of financial position?

1 Finished goods inventories may be valued on the basis of labour and materials cost only, without including overheads.

2 It may be acceptable for inventory to be valued at selling price minus the estimated profit margin.

3 Inventory should be valued at the lowest of net realisable value, replacement cost and historical cost.

4 According to IAS2 Inventories, both average cost and first-in, first-out (FIFO) are acceptable methods of deciding the cost of inventories.

**A** 1 and 2 only are correct.

**B** 1 and 3 only are correct.

**C** 2 and 4 only are correct.

**D** 3 and 4 only are correct. ***(2 marks)***

**70** Kerenza values inventory using average cost applied on a continuous basis.

The following has been extracted from her inventory records for the month of April:

| | |
|---|---|
| Opening inventory | 15 units at $4.80 each |
| 1st April Purchase | 10 units at $5.30 each |
| 6th April Sale | 8 units |
| 15th April Purchase | 8 units at $5.50 each |
| 27th April Sale | 10 units |

What is the value of Kerenza's inventory at 30th November?

**A** $76.80

**B** $77.40

**C** $81.10

**D** $78.00 ***(2 marks)***

**71** Inventory movements for product G during the last quarter were as follows:

| | | |
|---|---|---|
| October | Purchases | 15 items at $9.80 each |
| November | Sales | 10 items at $30 each |
| December | Purchases | 20 items at $12.50 |
| | Sales | 5 items at $31 each |

Opening inventory at 1st October was 15 items valued at $7.60 each.

The **periodic** weighted average method is used to value inventory.

The value of closing inventory per unit at the end of December is:

**A** $9.97

**B** $10.22

**C** $10.60

**D** $11.34 ***(2 marks)***

## Non-current assets

**72** For which of the following is 'accruals' the most relevant concept?

(1) Depreciation

(2) The recording of opening and closing inventory in the income statement

(3) The recording of deferred income

(4) The valuation of inventory at the lower of cost and net realisable value

**A** All of them

**B** 1 and 3 only

**C** 2 and 3 only

**D** 1, 2 and 3 ***(2 marks)***

**73** At 31st December 2009 Q, a limited liability company, owned a building that had cost \$2,000,000 on 1st January 2005. It was being depreciated at 2% per year.

On 31st December 2009 a revaluation to \$3,000,000 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?

| | Depreciation charge for year ended 31st December 2010 | Revaluation reserve as at 31st December 2009 |
|---|---|---|
| | $ | $ |
| **A** | 60,000 | 1,000,000 |
| **B** | 60,000 | 1,200,000 |
| **C** | 75,000 | 1,000,000 |
| **D** | 75,000 | 1,200,000 |

***(2 marks)***

**74** The plant and machinery at cost account of a business for the year ended 30 June 2010 was as follows:

**Plant and machinery – cost**

| | | | |
|---|---|---|---|
| **2009** | $ | **2009** | $ |
| 1 July Balance | 240,000 | 30 Sept Transfer disposal account | 60,000 |
| **2010** | | **2010** | |
| 1 Jan Cash – purchase of plant | 160,000 | 30 June Balance | 340,000 |
| | 400,000 | | 400,000 |

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 2010?

**A** \$68,000

**B** \$64,000

**C** \$61,000

**D** \$55,000 ***(2 marks)***

**75** 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)***

**76** A business purchased a motor car on 1st July 2009 for $20,000. It is to be depreciated at 20% 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 31st December 2009 be affected by the error?

**A** Understated by $18,400

**B** Understated by $16,800

**C** Understated by $18,000

**D** Overstated by $18,400 ***(2 marks)***

**77** The plant account of a company is shown below:

**Plant – Cost**

| **2009** | $ | **2009** | $ |
|---|---|---|---|
| 1st January Balance (plant purchased 1999) | 380,000 | 1st April Transfer disposal account – cost of plant sold | 30,000 |
| 1st April Cash – plant purchased | 51,000 | 31st December Balance | 401,000 |
| | 431,000 | | 431,000 |

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

What should the company's plant depreciation charge be for the year ended 31st December 2009?

**A** $82,150

**B** $79,150

**C** $77,050

**D** $74,050 ***(2 marks)***

**78** Beta purchased some plant and equipment on 1st July 2009 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 should the depreciation charge for the plant be in Beta's accounting period of 12 months to 30th September 2009?

**A** $720

**B** $600

**C** $900

**D** $675 ***(2 marks)***

**79** At 30th September 2008, the following balances existed in the records of Lam:

| | $ |
|---|---|
| Plant and equipment: cost | 860,000 |
| Accumulated depreciation | 397,000 |

During the year ended 30th September 2009, plant with a written down value of $37,000 was sold for $49,000. The plant had originally cost $80,000. Plant purchased during the year cost $180,000. It is the company's policy to charge a full year's depreciation in the year of acquisition of an asset and none in the year of sale, using a rate of 10% on the straight line basis.

What net amount should appear in Lam's statement of financial position at 30th September 2009 for plant and equipment?

**A** $563,000

**B** $467,000

**C** $510,000

**D** $606,000 ***(2 marks)***

**80** Which of the following statements is correct?

**A** Where assets are revalued, the valuation must be reviewed each year

**B** If a company adopts a revaluation policy, this must be applied to all non-current assets

**C** When a revalued asset is disposed of, the revaluation gain becomes realised and should be transferred to retained earnings

**D** The revaluation surplus account is a distributable reserve ***(1 mark)***

 

**81** On 23rd January 2010, Tractors bought a machine for use in the production of its tractors and farm equipment.

The following costs were incurred:

| | $ |
|---|---|
| Purchase price | 230,000 |
| Sales tax | 23,000 |
| Delivery to factory | 1,200 |
| Modifications to factory required to install machine | 12,000 |
| Maintenance cover for 1 year | 10,000 |

The sales tax payable is recoverable by Tractors.

What amount should be capitalised in the financial statements of Tractors?

**A** $266,200

**B** $253,000

**C** $243,200

**D** $252,000 ***(2 marks)***

**82** On 31 May 2009, Ariadne disposed of a non-current asset by way of a part-exchange agreement.

Details were as follows:

| | $ |
|---|---|
| Cost of old asset, purchased on 31 May 2001 | 46,000 |
| Part exchange allowance | 5,000 |
| Cost of new asset | 50,000 |

Ariadne depreciates similar assets straight line over ten years on a pro rata basis, to a nil residual value.

What is the loss on disposal of the old asset and what should be the recorded cost of the new asset?

**A** Loss on disposal $4,200: new asset recorded at $45,000

**B** Loss on disposal $4,200: new asset recorded at $50,000

**C** Loss on disposal $5,500: new asset recorded at $45,000

**D** Loss on disposal $5,500: new asset recorded at $50,000 ***(2 marks)***

**83** IAS 16 *Property, Plant and Equipment* requires the depreciation of non-current assets to start when:

**A** the asset is delivered

**B** the asset is installed and ready for normal use

**C** the asset starts to be used

**D** the asset is purchased ***(1 mark)***

 

**84** Which of the following statements is correct?

(1) Depreciation aims to ensure that the carrying value of a non-current asset reflects its fair value.

(2) All non-current assets must be depreciated.

(3) The depreciable amount of a non-current asset is its cost less any residual value.

**A** All of them

**B** 1 and 3

**C** 1 and 2

**D** 3 only ***(2 marks)***

**85** The reducing balance method of depreciating non-current assets is more appropriate than the straight line method when:

**A** the useful life is infinite

**B** the asset decreases in value more in the earlier years of use

**C** the expected residual value is nil

**D** it is expected that the asset will be replaced within a short period of time ***(1 mark)***

**86** A non-current asset register is:

**A** another name for the non-current asset cost ledger account

**B** the book of prime entry in which the acquisition and disposal of non-current assets is recorded

**C** a detailed list of non-current assets held by the business to help track what is owned and where it is held

**D** a list of repairs and maintenance carried out to non-current assets and the associated costs ***(1 mark)***

**87** The following information is available about the business of Dore at 31 August 2010:

| | $ |
|---|---|
| Balance on non-current assets cost account | 345,400 |
| Balance on accumulated depreciation account | 198,700 |
| Carrying value shown in non-current asset register | 70,300 |

The following errors have been found:

(1) A disposal has not been recorded in the ledger accounts. The asset had a carrying value at the date of disposal of $18,400 and was sold for $19,400.

(2) A revaluation has occurred during the year and was not recorded in the register. The surplus is $50,000.

(3) A new asset costing $10,000 has not been recorded in the register.

Dore charges 20% straight line depreciation with a full charge in the year of acquisition and none in the year of disposal.

 

What should be the value of non-current assets in the statement of financial position at 31 August 2010?

**A** $128,300

**B** $130,300

**C** $136,300

**D** $146,700 ***(2 marks)***

**88** Flubber is engaged in a number of research and development projects as follows:

(1) Project A involves investigating a new substance to find out whether it is waterproof at depths of up to 1 kilometre.

(2) Project B involves using a material developed by Flubber to make children's sun suits. A wholesale buyer has been identified and agreed to purchase 100 suits initially.

(3) Project C involves making prototype wetsuits out of a new material. The project has become very costly and Flubber's funding for this project has now run out.

The costs associated with which projects should be capitalised?

**A** Projects B and C

**B** All three projects

**C** None of the projects

**D** Project B only ***(2 marks)***

**89** Homer, a company, purchased an office building on 1st January 2004 for $800,000. The property was depreciated at 2% on a straight line basis. On 1st January 2009 it was decided to revalue the building to $1,125,000. The useful life was not revised.

What is the balance on the revaluation reserve at 31st December 2009?

**A** $405,000

**B** $396,000

**C** $398,500

**D** $325,000 ***(2 marks)***

**90** Grantham's non-current asset register shows a balance of $345,000 and his ledger accounts a non-current asset carrying value of $348,000. Which of the following would explain this discrepancy in full?

**A** An addition of $15,000 has not been recorded in the register and depreciation of $12,000 has not been recorded in the ledger account

**B** A disposal was recorded in the ledger accounts at proceeds of $22,000 rather than carrying value of $10,000. In the register, depreciation of $9,000 on an asset has not been recorded

**C** An addition of $15,000 has not been recorded in the register and a disposal was deducted as proceeds of $12,000 rather than carrying value of $22,000. In the ledger accounts, the depreciation charge of $2,000 relating to an asset was charged twice

**D** Depreciation of $18,000 has been recorded in the ledger accounts twice and the disposal of an asset with carrying value of $15,000 has not been recorded in the register ***(2 marks)***

**91** Jeremy disposes of an asset during the year ended 31st December 2009. The following information is relevant:

| | |
|---|---|
| Cost on 31st December 2007 | $45,000 |
| Proceeds on 1st August 2009 | $32,000 |

Jeremy's depreciates similar assets at 20% reducing balance on a pro rata basis.

What is the charge/credit to the income statement in the year ended 31st December 2009 for the above?

**A** $4,000 Dr

**B** $4,400 Dr

**C** $200 Cr

**D** $4,000 Cr ***(2 marks)***

**92** Development costs must be capitalised as an intangible asset provided that certain criteria are met.

Which of the following are included in the list of criteria?

(1) The development project is technically feasible.

(2) A profit is expected to be made.

(3) An ultimate consumer has been identified and a sales contract signed.

(4) The project and its costs can be separately identifiable.

**A** All of them

**B** 3 and 4

**C** 1, 3 and 4

**D** 1, 2 and 4 ***(2 marks)***

**93** The non-current assets of a business entity had a carrying value of $340,000. An asset which had cost $23,000 was sold for $15,000, at a profit of $2,000.

What is the revised carrying value of non-current assets?

**A** $317,000

**B** $327,000

**C** $323,000

**D** $325,000 ***(2 marks)***

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

**Plant – Cost**

| **2009** | | $ | **2009** | | $ |
|---|---|---|---|---|---|
| 1 Jan | Balance | 280,000 | 30 June | Transfer disposal | 14,000 |
| 1 April | Cash | 48,000 | 31 Dec | Balance | 350,000 |
| 1 Sept | Cash | 36,000 | | | |
| | | 364,000 | | | 364,000 |

What should the depreciation charge for the year ended 31 December 2009?

**A** $67,000

**B** $70,000

**C** $64,200

**D** $68,600 ***(2 marks)***

**95** On 1 January 2009 a company purchased some plant. The invoice showed:

| | $ |
|---|---|
| Cost of plant | 48,000 |
| Delivery to factory | 400 |
| One year warranty covering breakdown during 2009 | 800 |

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

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

**A** $51,400

**B** $48,000

**C** $50,600

**D** $48,400 ***(2 marks)***

**96** 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) Goodwill may not be revalued upwards.

(3) Internally-generated goodwill should not be capitalised.

**A** 2 and 3 only

**B** 1 and 3 only

**C** 1 and 2 only

**D** All three statements are correct. ***(2 marks)***

**97** A company purchased an asset on 1 January 2007 at a cost of $80,000. The asset had an expected life of eight years and a residual value of $20,000. Straight-line depreciation is used. The company's financial year ends on 31 December.

At 31 December 2009, the estimated remaining life of the asset from that date is now expected to be only three more years, but the residual value is unchanged.

What will be the net book value of the asset as at 31 December 2009, for inclusion in the statement of financial position?

**A** $48,750

**B** $53,750

**C** $51,250

**D** $57,500 ***(2 marks)***

**98** A company purchased an asset on 1 January 2008 at a cost of $800,000. It is depreciated over 50 years by the straight line method (nil residual value), with a proportionate charge in the year of acquisition and the year of disposal. The company uses the revaluation model for this category of non-current assets, and at 31 December 2009 the asset was revalued to $960,000.

The asset was sold on 31 March 2010 for $980,000.

What gain on disposal of the asset will be reported in profit and loss for the year ended 31 December 2010?

**A** $20,000

**B** $25,000

**C** $217,000

**D** $180,000 ***(2 marks)***

## Accruals and prepayments. Receivables and payables

**99** 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 2009 B received cash of $318,600 from its tenants. Details of rent in advance and in arrears at the beginning and end of 2009 are as follows:

| | **31 December 2009** | **31 December 2008** |
|---|---|---|
| | $ | $ |
| 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 profit and loss (the income statement) of B for 2009?

**A** $341,000

**B** $336,400

**C** $300,800

**D** $316,200 ***(2 marks)***

**100** During 2009, B, a limited liability company, paid a total of $60,000 for rent, covering the period from 1st October 2008 to 31st March 2010.

What figures should appear in the company's financial statements for the year ended 31st December 2009?

| | Income statement | Statement of financial position |
|---|---|---|
| **A** | $40,000 | Prepayment $10,000 |
| **B** | $40,000 | Prepayment $15,000 |
| **C** | $50,000 | Accrual $10,000 |
| **D** | $50,000 | Accrual $15,000 |

***(2 marks)***

**101** At 31st December 2009 a company's trade receivables totalled $864,000 and the allowance for irrecoverable debts was $48,000.

It was decided that debts totalling $13,000 were to be written off, and the allowance for irrecoverable debts adjusted to 5% of the receivables.

What figures should appear in the statement of financial position for trade receivables (after deducting the allowance) and in profit and loss (the income statement) for the total of bad and doubtful debts?

| | Income statement Bad and doubtful debts | Statement of financial position Net trade receivables |
|---|---|---|
| | $ | $ |
| **A** | 8,200 | 807,800 |
| **B** | 7,550 | 808,450 |
| **C** | 18,450 | 808,450 |
| **D** | 55,550 | 808,450 |

***(2 marks)***

**102** At 1st July 2009 a limited liability company had an allowance for irrecoverable debts of $83,000.

During the year ended 30th June 2010 debts totalling $146,000 were written off. At 30th June 2010 it was decided that an allowance of $218,000 was required for irrecoverable debts.

What figure should appear in the company's income statement (profit and loss) for the year ended 30th June 2010 for bad and doubtful debts?

**A** $155,000

**B** $364,000

**C** $281,000

**D** $11,000 ***(2 marks)***

**103** A business compiling its financial statements for the year to 31st July each year pays rent quarterly in advance on 1st January, 1st April, 1st July and 1st October each year. The annual rent was increased from $60,000 per year to $72,000 per year as from 1st October 2009.

What figure should appear for rent expense in the business income statement for the year ended 31st July 2010?

**A** $69,000

**B** $62,000

**C** $70,000

**D** $63,000 ***(2 marks)***

**104** A company has sublet part of its offices and in the year ended 30th November 2010 the rent receivable was:

| | |
|---|---|
| Until 30th June 2010 | $8,400 per year |
| From 1st July 2010 | $12,000 per year |

Rent was paid quarterly in advance on 1st January, April, July and October each year.

What amounts should appear in the company's financial statements for the year ended 30th November 2010?

| | **Income statement Rent receivable** | **Statement of financial position** |
|---|---|---|
| **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 |

***(2 marks)***

**105** At 31st March 2009 a company had oil in hand to be used for heating costing $8,200 and an unpaid heating oil bill for $3,600.

At 31st March 2010 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 31st March 2010 totalled $34,600.

Based on these figures, what amount should appear in the company's profit and loss (income statement) for heating oil for the year?

**A** $23,900

**D** $36,100

**C** $45,300

**D** $33,100 ***(2 marks)***

**106** 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 | Bad 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)***

**107** At 31st December 2009 a company's receivables totalled $400,000 and an allowance for irrecoverable debts of $50,000 had been brought forward from the year ended 31st December 2008.

It was decided to write off debts totalling $38,000 and to adjust the allowance for irrecoverable debts to 10% of the receivables.

What charge for bad and doubtful debts should appear in the company's income statement for the year ended 31st December 2009?

**A** $74,200

**B** $51,800

**C** $28,000

**D** $24,200 ***(2 marks)***

**108** A company receives rent for sub-letting part of its office block.

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

| **Date of receipt** | **Period covered:** | **$** |
|---|---|---|
| 1st October 2008 | 3 months to 31st December 2008 | 7,500 |
| 28 December 2008 | 31st March 2009 | 7,500 |
| 4th April 2009 | 30th June 2009 | 9,000 |
| 1st July 2009 | 30th September 2009 | 9,000 |
| 1st October 2009 | 31st December 2009 | 9,000 |

What figures, based on these receipts, should appear in the company's financial statements for the year ended 30th November 2009?

| | **Income statement** | **Statement of financial position** |
|---|---|---|
| **A** | $34,000 Debit | Prepayment (Dr) $3,000 |
| **B** | $34,500 Credit | Accrual (Cr) $6,000 |
| **C** | $34,000 Credit | Accrual (Cr) $3,000 |
| **D** | $34,000 Credit | Prepayment (Dr) $3,000 |

***(2 marks)***

**109** At 30th September 2008, Zed had a provision for irrecoverable debts of $37,000. During the year ended 30th September 2009 the company wrote off debts totalling $18,000, and at the end of the year it is decided that the provision for irrecoverable debts should be $20,000.

What should be included in profit and loss (the income statement) for bad and doubtful debts?

**A** $35,000 debit

**B** $1,000 debit

**C** $38,000 debit

**D** $1,000 credit ***(2 marks)***

**110** Theta prepares its financial statements for the year to 30th April each year. The company pays rent for its premises quarterly in advance on 1st January, 1st April, 1st July and 1st October each year. The annual rent was $84,000 per year until 30th June 2009. 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 30th April 2010?

| | Expense | Prepayment |
|---|---|---|
| **A** | $93,000 | $8,000 |
| **B** | $93,000 | $16,000 |
| **C** | $94,000 | $8,000 |
| **D** | $94,000 | $16,000 |

***(2 marks)***

**111** Details of Ajay's trade receivables are as follows:

| | |
|---|---|
| Allowance at 1st January 2009 | $27,000 |
| Trade receivables at 31st December 2009 | $655,900 |
| Allowance at 31st December 2009 | $34,000 |

Ajay also wished to write off $12,500 of debts which he believed to be irrecoverable.

What amounts should be included in Ajay's financial statements for the year ended 31st December 2009?

| | Allowance for receivables | Net trade receivables | Irrecoverable debt expense |
|---|---|---|---|
| | $ | $ | $ |
| **A** | 61,000 | 621,900 | 12,500 |
| **B** | 34,000 | 621,900 | 19,500 |
| **C** | 61,000 | 609,400 | 12,500 |
| **D** | 34,000 | 609,400 | 19,500 |

***(2 marks)***

**112** Which of the following is not an example of a year-end adjustment?

**A** Recording the disposal of a non-current asset

**B** Recording the write off of an irrecoverable debt

**C** Recording the drawings of a sole trader

**D** Transferring opening inventory to the income statement ***(1 mark)***

 

**113** Eric has found out that a customer has been declared bankrupt and will be unable to pay any of his debts. Eric had previously provided for this irrecoverable debt. Which of the following is the correct double entry?

| | Dr | Cr | |
|---|---|---|---|
| **A** | Receivables | Irrecoverable debts | |
| **B** | Allowance for receivables | Receivables | |
| **C** | Irrecoverable debts account | Receivables | |
| **D** | Receivables | Allowance for receivables | ***(1 mark)*** |

**114** Which of the following statements about an aged receivables analysis is true?

(1) Its purpose is to keep track of outstanding debts and highlight those which must be followed up.

(2) It is used to help estimate the allowance for receivables.

(3) Its main purpose is to assist in the process of setting credit limits.

(4) Only those debts that are overdue are included.

**A** 1 and 2

**B** 2 and 3

**C** 1, 2 and 4

**D** 2, 3 and 4 ***(2 marks)***

**115** At 31 December 2009, the total receivables account of BV Supplies shows a balance of $27,800. The following amounts are now deemed irrecoverable:

$460 owed from J, who has been declared bankrupt

$60 from E, who has disappeared

BV Supplies also wishes to make an allowance for 5% of outstanding debts and discovers that, as a result, the allowance is 10% greater than at the previous year end (31 December 2008).

What is the balance on the irrecoverable debts expense account at the year end?

**A** $644 Dr

**B** $1,864 Dr

**C** $396 Dr

**D** $ 381 Dr ***(2 marks)***

**116** Bathsheba pays rent on her office in advance and telephone bills in arrears. The balance on these accounts at 1 January 2010 was:

| | |
|---|---|
| Rent | $12,800 Dr |
| Telephone | $450 Cr |

During the year ended 31 December 2009, Bathsheba paid $78,000 to her landlord and $6,250 to her telephone provider.

Included in the $78,000 paid to her landlord was a bill for $19,500 covering the period 1 December 2009 to 28 February 2010.

On 7 January 2010, Bathsheba received a telephone bill for $589 to cover the month of December 2009.

What is the charge to profit and loss for each of these items for the year to 31 December 2009?

| | Rent | Telephone |
|---|---|---|
| **A** | $78,200 | $6,111 |
| **B** | $77,800 | $6,111 |
| **C** | $77,800 | $6,389 |
| **D** | $78,200 | $6,389 |

***(2 marks)***

**117** The receivables ledger control account below contains several incorrect entries.

**Receivables ledger control account**

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

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)***

**118** At 1 July 2009 a company had prepaid insurance of $8,200. On 1 January 2010 the company paid $38,000 for insurance for the year to 30 September 2010.

What figures should appear for insurance in the company's financial statements for the year ended 30 June 2010?

| | Income statement | Statement of financial position | |
|---|---|---|---|
| | $ | | $ |
| **A** | $27,200 | Prepayment | $19,000 |
| **B** | $39,300 | Prepayment | $9,500 |
| **C** | $36,700 | Prepayment | $9,500 |
| **D** | $55,700 | Prepayment | $9,500 |

***(2 marks)***

**119** At 30 June 2009 a company's allowance for receivables was $39,000. At 30 June 2010 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 (profit and loss) for these items?

**A** $61,000

**B** $22,000

**C** $24,000

**D** $23,850 ***(2 marks)***

**120** 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 2009.

What amounts for this rent should appear in the company's financial statements for the year ended 31 January 2010?

| | **Income statement** | **Statement of financial position** |
|---|---|---|
| **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)***

**121** 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 |
| | 1,023,900 | | 1,023,900 |

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)***

**122** At 1 January 2009 a company had an allowance for receivables of $18,000

At 31 December 2009 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 income statement for the total of debts written off as irrecoverable and the movement in the allowance for receivables for the year ended 31 December 2009?

**A** $49,500

**B** $31,500

**C** $32,900

**D** $50,900 ***(2 marks)***

**123** 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 | 410,400 | | |
| | 1,390,400 | | 1,390,400 |

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)***

**124** The following receivables ledger control account has been prepared by a trainee accountant:

**Receivables ledger control account**

| **2010** | | $ | **2010** | | $ |
|---|---|---|---|---|---|
| 1st Jan | Balance | 318,650 | 31st Jan | Cash from credit customers | 181,140 |
| | Credit sales | 161,770 | | Interest charged on overdue accounts | 280 |
| | | | | Bad debts written off | 1,390 |
| | Cash sales | 84,260 | | Sales returns from credit customers | 3,990 |
| | Discounts allowed to credit customers | 1,240 | | Balance | 379,120 |
| | | 565,920 | | | 565,920 |

 

What should the closing balance at 31st January 2010 be after correcting the errors in the account?

**A** $292,380

**B** $295,420

**C** $292,940

**D** $377,200 ***(2 marks)***

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

**Receivables ledger control account**

| | | | | | |
|---|---|---|---|---|---|
| | | $ | | | $ |
| 1st Jan | Balance | 614,000 | 31st Jan | Credit sales | 301,000 |
| 31st Jan | Cash from credit customers | 311,000 | | Discounts allowed | 3,400 |
| | | | | Bad debts written off | 32,000 |
| | Contras against amounts due to suppliers in payables ledger | 8650 | | Interest charged on overdue accounts | 1,600 |
| | | | | Balance | 595,650 |
| | | 933,650 | | | 933,650 |

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)***

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

(1) Cash received from customers

(2) Bad debts written off

(3) Increase in allowance for irrecoverable debts

(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)***

# Provisions and contingencies

**127** 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)***

**128** In preparing the financial statements of a company, the following items have to be considered:

(1) The company offers a one-year warranty to purchasers, undertaking to replace an item if a defect occurs. Past experience suggests that claims under the warranty will probably arise.

(2) The company has an action pending against it for damages for wrongful dismissal of a director. The company's legal advisor considers it improbable that the action will be successful.

(3) The company intends to close down a division in the next financial year. As a result significant costs will be incurred. As yet the board of directors has not made or announced a formal plan for this.

How should these items be reflected in the financial statements, if at all?

**A** All three should be disclosed by note

**B** A provision should be created for the best estimate of the liability in 1, and items 2 and 3 should be disclosed by note

**C** A provision should be created for the best estimate of the liability in 1, item 2 should be disclosed by note and item 3 not disclosed at all

**D** A provision should be created for the best estimate of the liabilities in 1 and 2 and item 3 should be disclosed by note ***(2 marks)***

**129** Greensleeves, a company has announced that it will be shutting down its operations in Transylvania in the coming year. It has recognised a provision for the associated costs in accordance with IAS 37.

A provision can be recognised because Greensleeves has:

**A** a legal obligation

**B** a constructive obligation. ***(1 mark)***

 

**130** Which of the following is **not** a requirement for a provision to be made according to IAS 37?

**A** A reliable estimate of the amount

**B** A probable outflow of benefits

**C** A present obligation as the result of a past event

**D** A virtually certain outflow of benefits ***(1 mark)***

**131** Mikhail wishes to recognise a provision for warranties of $13,400 in his statement of financial position. In the previous year's balance sheet, a provision of $15,600 was recognised.

What is the correct entry in Mikhails's accounts?

| | Debit | Credit |
|---|---|---|
| **A** | Income statement $2,200 | Provision $2,200 |
| **B** | Income statement $13,400 | Provision $13,400 |
| **C** | Provision $2,200 | Income statement $2,200 |
| **D** | Provision $13,400 | Income statement $13,400 |

***(1 mark)***

**132** Ives sells electrical appliances, offering a one-year repair warranty with each item sold. There is a 3% chance of an item needing major repairs in the first year after sale and a 10% chance of an item needing minor repairs.

If all items needed a major repair, the cost to Ives would be $150,000; if all items needed a minor repair, the cost to Ives would be $90,000.

What amount should Ives make a provision for?

**A** Nil – the conditions of IAS 37 are not met

**B** $150,000

**C** $17,700

**D** $13,500 ***(2 marks)***

**133** At 30th June 2010, L had the following issues:

(1) A customer was suing the company for $30,000 damages as a result of faulty goods. L's legal team has suggested that there is a 45% chance that they will win the case.

(2) After a separate incident, L is suing another supplier for breach of contract. The legal team has advised that in this case the action is virtually certain to succeed.

How should these matters be accounted for?

**A** (1) should be a provision and (2) an asset.

**B** (1) should be a contingent liability and (2) an asset.

**C** (1) should be a provision and (2) a contingent asset.

**D** (1) should be a contingent liability and (2) a contingent asset. ***(2 marks)***

 

**134** In which of the following circumstances would a provision be made by a company in its financial statements in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets* in the financial statements?

1 The company expects to make operating losses from a new business operation next year. The losses are expected to be $3 million.

2 The company has just purchased a new asset and it is expected that when the asset is decommissioned in ten years' time, the company will be required under current environmental laws to incur $4 million in decontamination costs.

3 A decision was made by the board of directors to shut down one of its business divisions. The closure is likely to cost $8 million. Details of the closure arrangements have been announced to the employees and the media.

**A** 1 and 2 only

**B** 2 and 3 only

**C** 2 only

**D** 3 only ***(2 marks)***

## Capital structure and finance costs

**135** 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 of the following journal entries is needed to correct this error?

| | | Debit | Credit |
|---|---|---|---|
| | | $ | $ |
| **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)***

**136** At 30th June 2009 a company had $1m 8% loan notes in issue, interest being paid half-yearly on 30th June and 31st December.

On 30th September 2009 the company redeemed $250,000 of these loan notes at par, paying interest due to that date.

On 1st April 2010 the company issued $500,000 7% loan notes, interest payable half-yearly on 31st March and 30th September.

What figure should appear in the company's income statement for interest payable in the year ended 30th June 2010?

**A** $88,750

**B** $82,500

**C** $65,000

**D** $73,750 ***(2 marks)***

**137** A company made an issue for cash of 1,000,000 50c shares at a premium of 30c per share. Which of the following journal entries correctly records the issue?

| | | Debit | Credit |
|---|---|---|---|
| | | $ | $ |
| **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)***

**138** Allegra, a limited liability company, provides the following information about dividends in the year ended 31 August 2010:

| | | |
|---|---|---|
| 21 Sept 2009 | Final equity dividend for year ended 31 August 2009 declared | $26,000 |
| 21 Oct 2009 | Final equity dividend for year ended 31 August 2009 paid | |
| 31 March 2010 | Interim equity dividend for the year ended 31 August 2010 paid | $17,000 |
| 18 August 2010 | Final equity dividend for year ended 31 August 2010 proposed | $28,000 |
| 20 August 2010 | Final equity dividend for year ended 31 August 2010 declared | $28,000 |

What amounts should be disclosed in the statement of changes in equity and statement of financial position of Allegra for the year ended 31 August 2010?

| | Statement of changes in equity | Statement of financial position |
|---|---|---|
| **A** | $43,000 | Nil |
| **B** | $43,000 | $28,000 |
| **C** | $45,000 | $28,000 |
| **D** | $45,000 | Nil |

***(2 marks)***

**139** Which of the following is **not** normally a characteristic of a preference share?

**A** Dividends are fixed

**B** Dividends are paid before any equity dividends

**C** It entitles the holder to a vote

**D** Dividends are paid on specific dates ***(1 mark)***

**140** A company has in issue 30,000 ordinary shares of $1 nominal value. To date, shareholders have been asked to pay 50c per share – a total of $15,000, and have paid 30c per share – a total of $9,000.

$15,000 is

**A** the authorised share capital

**B** the called-up share capital

**C** the issued share capital

**D** the paid-up share capital ***(1 mark)***

**141** Evon, a limited liability company, issued 1,000,000 ordinary shares of 25c 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 |
| | | 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)***

**142** At 1 July 2009 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 2010 the company made the following share issues.

**1 January 2010**

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

**1 April 2010**

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 2010 as a result of these issues?

| | Share capital | Share premium |
|---|---|---|
| | $ | $ |
| **A** | 687,500 | 650,000 |
| **B** | 675,000 | 375,000 |
| **C** | 687,500 | 150,000 |
| **D** | 687,500 | 400,000 |

***(2 marks)***

**143** 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 reduce the gearing (leverage) ratio of 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** 3 and 4 ***(2 marks)***

***Note*****:** The **gearing ratio** of a company is the ratio of its equity capital and reserves to total capital (or the ratio of its equity capital and reserves to total debt capital).

**144** A company prepares an income statement separate from a statement of comprehensive income. In which statement should there be disclosure of tax on profit for the current period and unrealised gains on the revaluation of properties?

| | Tax on profit for current period | Unrealised gains on revaluation |
|---|---|---|
| **A** | Income statement | Income statement |
| **B** | Income statement | Statement of comprehensive income |
| **C** | Statement of comprehensive income | Income statement |
| **D** | Statement of comprehensive income | Statement of comprehensive income |

***(2 marks)***

**145** Which of the following items should appear in a company's statement of changes in equity?

1 Preference dividends paid

2 Interest payable on loans

3 Profit for the financial year before tax

4 Bonus issue of shares

**A** 1, 2 and 4only

**B** 2 and 3 only

**C** 3 and 4 only

**D** 4 only ***(2 marks)***

**146** Which of the following could appear as separate items in the statement of changes in equity required by IAS I *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)***

**147** Which of the following journal entries could correctly record a bonus (capitalisation) issue of shares?

| | | **Debit** | **Credit** |
|---|---|---|---|
| | | $ | $ |
| **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)***

**148** At 30th June 2009 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 30th June 2010 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 30th June 2010?

| | Ordinary share capital | Share premium account |
|---|---|---|
| | $ | $ |
| **A** | 450,000 | 125,000 |
| **B** | 225,000 | 250,000 |
| **C** | 225,000 | 325,000 |
| **D** | 212,500 | 262,500 |

***(2 marks)***

**149** At 31st December 2009 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 2010 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 31st December 2010?

| | Ordinary share capital | Share premium account |
|---|---|---|
| | $ | $ |
| **A** | 130,000 | 173,000 |
| **B** | 105,000 | 173,000 |
| **C** | 130,000 | 137,000 |
| **D** | 105,000 | 137,000 |

***(2 marks)***

**150** 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 period

(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)***

# Trial balance, correcting errors and suspense accounts

**151** Which of the following items appear on the same side of the trial balance?

**A** Carriage inwards and rental income

**B** Drawings and accruals

**C** Opening inventory and purchase returns

**D** Carriage outwards and accrued income ***(1 mark)***

**152** Which one of the following would result in a trial balance not balancing?

**A** A casting error in the sales day book

**B** Debiting both the cash and sales account to record a cash sale

**C** Failure to record a transaction

**D** Debiting the purchase of a motor vehicle to the purchases account, while correctly crediting the cash account. ***(1 mark)***

**153** Olly has recorded his cash account for the month of October as follows, but it contains some errors:

**Cash**

| | | | |
|---|---|---|---|
| | $ | | $ |
| Overdraft b/f | 156 | | |
| Receipts from customers | 12,890 | Payments to suppliers | 13,400 |
| Dishonoured cheque | 25 | Bank charges | 100 |
| Rental income | 5,000 | Money banked from petty cash | 1,600 |
| | | Balance c/f | 2,971 |
| | 18,071 | | 18,071 |

What is Olly's cash balance after the necessary corrections have been made?

**A** $6,009 Dr

**B** $2,609 Dr

**C** $5,498 Dr

**D** $5,809 Dr ***(2 marks)***

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

| | | Dr | Cr |
|---|---|---|---|
| | | $ | $ |
| (1) | B receivables ledger account | 450 | |
| | Bad debts account | | 450 |
| | Irrecoverable balance written off | | |

| | | | |
|---|---|---|---|
| (2) | Share capital | 100,000 | |
| | Cash | | 100,000 |
| | Issue of shares at par | | |
| (3) | Suspense account | 1,000 | |
| | Motor vehicles account | | 1,000 |
| | Motor vehicles account undercast by $1,000 | | |

**A** None of them
**B** 1 only
**C** 2 only
**D** 3 only ***(2 marks)***

**155** A business income statement for the year ended 31st December 2009 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 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)***

**156** 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)***

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

| | | Dr | Cr |
|---|---|---|---|
| | | $ | $ |
| (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)***

**158** 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)***

**159** 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** No entry has been made in the records for a cash sale of $2,500

**D** $3,000 paid for repairs to plant has been debited to the plant asset account

***(2 marks)***

**160** 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 of the following journal entries will correct the errors?

| | | Dr | Cr |
|---|---|---|---|
| | | $ | $ |
| **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 |
| **D** | Discount allowed | 3,840 | |
| | Discount received | | 2,960 |
| | Suspense account | | 880 |

***(2 marks)***

**The following information is relevant for questions 161 and 162.**

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.

**161** 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)***

**162** 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)***

**163** The trial balance totals of Gamma at 30th September 2010 are:

Debit $992,640

Credit $1,026,480

Which TWO of the following possible errors could, when corrected, cause the trial balance to agree?

(1) An item in the cash book $6,160 for payment of rent has not been entered in the rent payable account.

(2) The balance on the motor expenses account $27,680 has incorrectly been listed in the trial balance as a credit.

(3) $6,160 proceeds of sale of a motor vehicle has been posted to the debit of motor vehicles asset account.

(4) The balance of $21,520 on the rent receivable account has been omitted from the trial balance.

**A** 1 and 2

**B** 2 and 3

**C** 2 and 4

**D** 3 and 4 ***(2 marks)***

**164** 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)***

**165** Charlie has posted the following correction journals to his accounts at the year end:

| | |
|---|---|
| Dr Receivables ledger control account | $3,400 |
| Cr Sales | $3,400 |

To correct the undercasting of the sales day book

| | |
|---|---|
| Dr Discounts allowed | $1,890 |
| Cr Discounts received | $1,890 |

To correct the misposting of discounts allowed

| | |
|---|---|
| Dr Cash | $356 |
| Cr Suspense | $356 |

To correct the crediting of a cash receipt to the cash account

Prior to recording these journals, Charlie's profit was $278,990.

What is his revised profit?

**A** $282,390

**B** $282,746

**C** $280,856

**D** $282,034 ***(2 marks)***

**166** Which of the following type of error will result in an imbalance on the trial balance?

**A** Error of omission

**B** Error of commission

**C** Compensating error

**D** Extraction error ***(1 mark)***

**167** Which one of the following is an error of commission?

**A** The recording of a motor repair as an addition to the motor vehicles account

**B** The purchase of a new piece of machinery has been recorded in the premises account

**C** The payment of a supplier debited to the cash and supplier account

**D** The correct recording of a cash sale, but for the wrong amount ***(1 mark)***

**168** During the year Raine, a sole trader, sold goods for $4,300. The only accounting entry she made was to debit cash. Raine also recorded a purchase return of $189 by debiting the purchase returns account.

What journal entry is required to correct the two errors?

| | Dr | Cr |
|---|---|---|
| **A** | Sales $4,300<br>Purchase ledger control account $189 | Suspense $4,489 |
| **B** | Suspense $4,489 | Sales $4,300<br>Purchase returns $189 |
| **C** | Suspense $4,678 | Sales $4,300<br>Purchase returns $378 |
| **D** | Sales $4,300<br>Purchase ledger control account $378 | Suspense $4,678 |

***(2 marks)***

**169** Oswald made a contra entry for $120 between the accounts in the sales ledger and purchases ledger for Razek. He recorded the transaction by debiting the account in the sales ledger and crediting the account in the purchase ledger with $120. Oswald does not maintain control accounts.

Which of the following statements is correct?

**A** The errors should be corrected, but neither the profit nor the net assets are overstated

**B** Unless the error is corrected, net assets will be overstated by $240

**C** Unless the error is corrected, profit will be overstated by $240

**D** Unless the error is corrected, net assets will be overstated by $120 ***(2 marks)***

**170** At the year end, Iris extracts her trial balance and finds that a suspense account of $3,690 (Cr) is needed in order to make it balance.

She also discovers the following errors:

(1) Goods costing $188 that Iris took for her own use have not been recorded. Iris uses a mark-up of 50%.

(2) The receipt of $270 from a customer has been debited to their account in the sales ledger.

(3) Depreciation for the year of $2,180 has been debited to the provision for depreciation account.

Iris maintains control accounts.

 

What is the balance on the suspense account after the above errors have been corrected?

**A** $3,690 Cr

**B** $1,510 Cr

**C** $1,210 Dr

**D** $670 Dr **(2 marks)**

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

| | | Dr | Cr |
|---|---|---|---|
| | | $ | $ |
| 1 | Suspense account | 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 | B receivables ledger account | 22,000 | |
| | A receivables ledger account | | 22,000 |
| | Correction of error: cash received from A wrongly entered to B's account | | |
| 3 | Share premium account | 400,000 | |
| | Share capital account | | 400,000 |
| | 1 for 3 bonus issue on share capital of 1,200,000 50c shares | | |
| 4 | Shares 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 3

**B** 2 and 3

**C** 1 and 4

**D** 2 and 4 **(2 marks)**

**172** 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 to 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)***

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

Debit: $393,130

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 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 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 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 cash book but entered in the rent account as $1,610.

***(2 marks)***

 

**The following information is relevant for questions 174 and 175**

A company's draft financial statements for 2009 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 account 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 2009 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 has been understated by $10,000.

**174** 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)***

**175** What would the company's profit become after correction of the above errors?

**A** $634,760

**B** $624,760

**C** $624,440

**D** $625,240 ***(2 marks)***

**176** A company's profit and loss for the year ended 31 December 2010 showed a net profit of $76,800. It was later discovered that $32,000 paid for an item of office equipment had been debited to the office administration expenses account. It is the company's policy to depreciate office equipment at 20% per year on the straight line basis, with a full year's charge in the year of acquisition.

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

**A** $108,800

**B** $115,200

**C** $102,400

**D** $38,400 ***(2 marks)***

# Control accounts and bank reconciliations

**177** The following bank reconciliation statement has been prepared for a company:

| | $ |
|---|---|
| Overdraft per bank statement | 39,800 |
| add: Deposits credited after date | 64,100 |
| | 103,900 |
| less: Outstanding cheques presented after date | 44,200 |
| Overdraft per cash book | 59,700 |

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)***

**178** 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.

(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)***

**179** Listed below are five potential causes of difference between a company's cash book balance and its bank statement balance as at 30th November 2009:

(1) Cheques recorded and sent to suppliers before 30th November 2009 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 30th November 2009 but not credited by the bank until 3rd December 2009.

(5) A cheque recorded and paid in before 30th November 2009 but dishonoured by the bank.

Which 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?

| | Cash book entry | Bank reconciliation |
|---|---|---|
| **A** | 1, 2, 4 | 3, 5 |
| **B** | 3, 5 | 1, 2, 4 |
| **C** | 3, 4 | 1, 2, 5 |
| **D** | 2, 3, 5 | 1, 4 |

***(2 marks)***

**180** 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.

(3) Goods returned by Alpha $380 have not been recorded by Beta.

What discrepancy remains between Alpha's and Beta's records after allowing for these items?

**A** $9,310

**B** $390

**C** $310

**D** $1,070 ***(2 marks)***

**181** In preparing a company's bank reconciliation statement at March 2010, 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)***

**182** In reconciling a business cash book with the bank statement, which of the following items could require a subsequent entry in the cash book?

(1) Cheques presented after date

(2) A cheque from a customer which was dishonoured

(3) An error by the bank

(4) Bank charges

(5) Deposits credited after date

(6) Standing order entered in bank statement

**A** 2, 3, 4 and 6

**B** 1, 2, 5 and 6

**C** 2, 4 and 6

**D** 1, 3 and 5 ***(2 marks)***

**183** Max is a supplier to Eddie's cake making business. At 31 August Max sent a statement to Eddie showing a balance due of $2,300. On the same date, Max's account in Eddie's records showed a balance of $2,100.

Which of the following could account for the difference in full?

**A** Max has issued a credit note to Eddie for $200 but Eddie has not yet received it

**B** The credit side of Max's account in Eddie's ledger has been overcast by $200

**C** The debit side of Max's account in Eddie's ledger has been undercast by $200

**D** An invoice for $100 from Max has been treated as a credit note by Eddie

***(2 marks)***

**184** Allister is preparing a bank reconciliation at the end of January 2010. His bank statement shows a balance of $13,670 debit and he also ascertains the following:

(1) A direct debit of $2,890 has not been entered in the cash book.

(2) Cheques not yet presented amount to $1,700.

(3) $3,780 has been paid in to the bank but not yet credited to the bank statement.

(4) The ledger clerk has made an error when updating the cash book and recorded a payment of $270 as a receipt.

What was the balance on the cash book before any adjustments were made?

**A** $1,350 debit

**B** $12,320 credit

**C** $8,160 credit

**D** $19,180 debit ***(2 marks)***

**185** The payables ledger control account of Hermione showed a credit balance of $465,800. The individual supplier accounts in her payables ledger totalled $470,500.

Which of the following could account in full for the difference?

**A** Discounts received of $4,700 have not yet been recorded

**B** A supplier account showing a debit of $2,350 has been listed as a credit

**C** An invoice of $4,700 has not been recorded in the purchase day book

**D** A contra of $2,350 has been recorded as a credit in the control account ***(2 marks)***

**186** Ferris is performing a receivables ledger reconciliation. The balance on his receivables ledger control account is $231,780 and the total of the balances on his receivables ledger accounts is $227,900.

After accounting for the following errors, what difference remains between the control account and receivables ledger total?

(1) An invoice for $430 was omitted from the sales day book.

(2) The sales day book was overcast by $2,100.

(3) A credit note for $200 in the favour of a customer was debited to the customer's account in the receivables ledger.

**A** $2,310

**B** $1,880

**C** $1,680

**D** $2,110 ***(2 marks)***

**187** The following errors are found when producing a receivables ledger reconciliation:

(1) A contra agreed with a customer who is also a supplier has not been recorded in the accounts.

(2) The discounts allowed column in the cash book has been undercast.

(3) A credit balance on a customer's account has been included as a debit balance.

(4) A cheque from a customer has been entered in the cash book at the wrong amount.

Which of these errors requires an entry in the receivables ledger to make the correction?

**A** 1, 3 and 4 only

**B** 2 and 4 only

**C** 1, 2 and 3 only

**D** 2, 3 and 4 only ***(2 marks)***

**188** The following bank reconciliation statement has been prepared for Sprout:

| | $ |
|---|---:|
| Overdraft per bank statement | 68,100 |
| Deposits not credited | 141,200 |
| Outstanding cheques | ? |
| Balance per cash book | 31,300 |

Which of the following is the correct missing figure?

**A** $178,000

**B** $104,400

**C** $41,800

**D** $240,600 ***(1 mark)***

**189** Clarabel received a statement from Annie, her supplier, showing a balance of $4,500. Clarabel's records show that she owes Annie $4,230. Clarabel discovers the following:

(1) She has recorded a settlement discount of $100 twice in her purchases ledger.

(2) Annie has not accounted for the same discount at all.

(3) Annie has not allowed for a cheque for $40 sent by Clarabel.

After allowing for these items, what discrepancy remains?

**A** $510

**B** $310

**C** $30

**D** $230 ***(2 marks)***

**190** Alpha buys goods from Beta. At 30 June 2010 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 would explain the difference between the two balances?

**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 entered 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.

***(2 marks)***

**191** 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.

1 A cheque sent by Ordan for $270 has not been allowed for in Alta's statement.

2 Alta has not allowed for goods returned by Ordan $180.

3 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)***

**192** Sigma's bank statement shows an overdrawn balance of $38,600 at 30 June 2010. 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 2010 but credited by the bank on 2 July 2010 $14,700.

3 Cheque payments entered in cash book but not presented for payment at 30 June 2010 $27,800.

4 A cheque payment to a supplier of $4,200 charged to the account in June 2010 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)***

**193** The following bank reconciliation statement has been prepared by an inexperienced bookkeeper at 31 December 2009.

**Bank reconciliation statement**

| | $ |
|---|---|
| Balance per bank statement (overdrawn) | 38,640 |
| Add: Lodgements not credited | 19,270 |
| | 57,910 |
| Less: Unpresented cheques | 14,260 |
| Balance per cash book | 43,650 |

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)***

# Preparing financial statements

**194** Meera provides the following information about her business at 30th November 2009:

| | $ |
|---|---|
| Office | 114,000 |
| Car | 12,000 |
| Receivables | 13,900 |
| Bank balance (a debit on the bank statement) | 1,260 |
| Provision for depreciation | 12,000 |
| Payables | 16,050 |
| Inventory | 1,230 |
| Petty cash | 220 |
| Bills due | 2,200 |
| Allowance for receivables | 970 |
| Loan (repayable in 4 equal annual instalments starting 1st January 2010) | 100,000 |

What are the correct figures for current liabilities and current assets?

| | Current assets | Current liabilities |
|---|---|---|
| | $ | $ |
| **A** | 15,640 | 41,050 |
| **B** | 15,640 | 43,250 |
| **C** | 14,380 | 42,310 |
| **D** | 14,380 | 44,510 |

***(2 marks)***

**195** Which of the following items must be disclosed in a company's published financial statements (including notes) if material, according to IAS 1 *Presentation of Financial Statements?*

(1) Finance costs

(2) Staff costs

(3) Depreciation and amortisation expense

(4) Movements on share capital

**A** 1 and 3 only

**B** 1, 2 and 4 only

**C** 2, 3 and 4 only

**D** All four items ***(2 marks)***

**196** At 31 December 2009 the following matters require inclusion in a company's financial statements:

1 On 1 January 2009 the company made a loan of $12,000 to an employee, repayable on 30 April 2010, charging her interest at 2% per year. On 30 April 2010

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 2009, covering the year ending 31 August 2010.

3 In January 2010 the company received rent from a tenant $4,000 covering the six months to 31 December 2009.

For these items, what total figures should be included in the company's statement of financial position at 31 December 2009?

| | **Current assets** | **Current liabilities** |
|---|---|---|
| | $ | $ |
| **A** | 22,000 | 240 |
| **B** | 22,240 | nil |
| **C** | 10,240 | nil |
| **D** | 16,240 | 6,000 |

***(2 marks)***

**197** Any under-provision for the previous year's tax means that the profit for the current year will be:

**A** higher

**B** lower

**C** unaffected ***(1 mark)***

**198** A company has calculated that the tax charge on its profits for the current year should be $97,100. During the year it was agreed with the tax authorities that tax had been over-provided by $4,800 in the previous year. At the beginning of the year the tax payable was $21,300. At the end of the year, tax payable was $25,400.

The amount of tax paid to the tax authorities during the year was:

**A** $88,200

**B** $96,400

**C** $97,200

**D** $106,000 ***(2 marks)***

**199** Orlando, a company, makes a profit before tax in the year ended 31 August 2010 of $179,450. At the start of the year its retained earnings were $670,200. The following information is also relevant:

(1) The estimated tax charge for the year is $21,700.

(2) There was under-provision of tax $1,200 for the year ending 31 August 2009.

(3) An interim dividend totalling $10,000 has been paid.

(4) A final dividend of $15,000 has been proposed.

(5) No final dividend was declared for the year ended 31 August 2009.

What is the balance on Orlando's retained earnings account at 31 August 2010?

**A** $801,750

**B** $816,750

**C** $819,150

**D** $804,150 ***(2 marks)***

**200** Which of the following statements about financial statements are in accordance with IAS 1?

(1) Extraordinary items must be disclosed on the face of the statement of comprehensive income as additions to or deductions from profit before tax.

(2) The authorised share capital of the company must be disclosed by note or on the face of the statement of financial position

(3) The total of staff costs for the period must be disclosed by note or on the face of the statement of comprehensive income.

(4) The accounting policies adopted by the company must be disclosed but only if they do not comply with accounting standards.

(5) Proposed ordinary dividends should not be recognised as liabilities unless they have been proposed or declared before the end of the reporting period.

**A** 1, 2, 3 and 4

**B** 1, 2, 3 and 5

**C** 2, 3 and 5

**D** 1, 4 and 5 ***(2 marks)***

**201** Where in the financial statements should tax on profit for the current year and dividends be disclosed?

| | Tax on profit for current year | Dividends |
|---|---|---|
| **A** | Income statement | Statement of changes in equity |
| **B** | Income statement | Income statement |
| **C** | Statement of changes in equity | Statement of changes in equity |
| **D** | Statement of changes in equity | Income statement |

***(2 marks)***

**202** An enterprise 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)***

**203** 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 income statement 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)***

**204** 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 income statement 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)***

**205** Which of the following statements about the financial statements of limited liability companies are correct according to International Accounting 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)***

**206** 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)***

**207** You have been presented with the following information about a company:

| At 31 December 2008: | $ |
|---|---|
| $1 Share capital | 250,000 |
| Share premium | 50,000 |
| Revaluation reserve | 120,000 |
| Retained earnings | 453,299 |

During the year ended 31 December 2009, the following occurred:

(1) Premises were re-valued to $130,000 from a carrying value of $75,000.

(2) A 1 for 4 bonus issue was completed.

(3) Profits after tax for the current year were $156,700

(4) Last year's final dividend of $75,000 was paid and a dividend of $85,000 has been proposed for the current year.

What was the balance on the retained earnings reserve as at 31 December 2009?

**A** $449,999

**B** $534,999

**C** $579,999

**D** $522,499 ***(2 marks)***

**208** A company has the following transactions.

1. The company receives payment of $1,000 from a credit customer.
2. Goods held in inventory that cost $2,000 were sold for $2,500.
3. A supplier agrees to reduce the amount payable on an invoice by $500 by issuing a credit note. There is no return of goods to the supplier.

What is the combined effect of these transactions on the company's total working capital (current assets minus current liabilities)?

**A** Working capital remains the same

**B** Increase of $500

**C** Increase of $1,000

**D** Increase of $1,500 ***(2 marks)***

**209** Which of the following statements are correct?

1. All non-current assets must be depreciated.
2. If goodwill is re-valued, the revaluation gain appears in the statement of changes in equity.
3. If a tangible non-current asset is re-valued, all tangible assets of the same class should be re-valued.
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)***

**210** Which of the following events between the end of the reporting period 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** 2 and 3 only

**B** 1 and 3 only

**C** 3 only

**D** None of them ***(2 marks)***

**211** Which of the following must be disclosed in a company's published financial statements?

1 Authorised share capital

2 Movements in reserves

3 Finance costs

4 Movements in non-current assets

**A** 1, 2 and 3 only

**B** 1, 2 and 4 only

**C** 2, 3 and 4 only

**D** All four items ***(2 marks)***

**212** Which of the following events after the reporting period would normally qualify as adjusting events according to IAS10: *Events after the reporting period*?

1 The bankruptcy of a credit customer with a balance outstanding at the end of the reporting period

2 A decline in the market value of investments

3 The declaration of an ordinary dividend

4 The determination of the cost of assets purchased before the end of the reporting period.

**A** 1, 3 and 4 only

**B** 1 and 2 only

**C** 2 and 3 only

**D** 1 and 4 only ***(2 marks)***

**213** 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)***

**214** 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 IAS10 *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)***

**215** In finalising the financial statements of a company for the year ended 30th June 2010, 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 2010.

(2) The sale in August 2010 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 2010. The factory was back in production by August 2010 but its value was reduced to $2,000,000.

(4) The company issued 1,000,000 ordinary shares in August 2010.

**A** All four items

**B** 1 and 2 only

**C** 1 and 4 only

**D** 2 and 3 only ***(2 marks)***

**216** 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)***

**217** IAS 10 *Events After the Reporting Period* defines the extent to which events after the reporting period should be reflected in financial statements. Five such events are listed below:

(1) Merger with another company

(2) Insolvency of a customer

(3) Destruction of a major non-current asset

(4) Sale of inventory held at the end of the reporting period for less than cost

(5) Discovery of fraud.

Which three of the listed items are, according to IAS 10, normally to be classified as adjusting?

**A** 1, 2 and 3

**B** 2, 4 and 5

**C** 1, 2 and 5

**D** 1, 4 and 5 ***(2 marks)***

**218** Which of the following events occurring in the period between the end of the reporting period (31st December) and the approval of the accounts (3rd March) requires adjustment to the accounts?

**A** The announcement on 2nd January of a plan to discontinue a division

**B** A fire in a warehouse on 5th February

**C** The commencement of a legal action on 31st January relating to an event in the previous November

**D** The purchase of a major new factory on 5th January ***(1 mark)***

**219** How should the following be classified:

(1) Redeemable preference shares

(2) Loan notes with a five-year term

(3) An amount owed to a supplier on 18-month credit terms

(4) A provision for one-year warranties

| | Current liabilities | Non-current liabilities |
|---|---|---|
| **A** | 3 and 4 | 1 and 2 |
| **B** | 3 and 4 | 2 only |
| **C** | - | 1, 2, 3 and 4 |
| **D** | 3 | 1, 2 and 4 |

***(2 marks)***

## Statements of cash flows

**220** A draft statement of cash flows contains the following calculation of net cash inflow from operating activities.

| | $m |
|---|---|
| Operating profit | 13 |
| Depreciation | 2 |
| Decrease in inventories | (3) |
| Decrease in trade and other receivables | 5 |
| Decrease in trade payables | 4 |
| Net cash flow from operating activities | 21 |

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)***

**221** 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 | Added 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)***

 

**222** 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 | (9) |
| Operating profit before working capital changes | 19 |
| Decrease in inventories | 13 |
| Increase in receivables | (4) |
| Increase in payables | (8) |
| Cash generated from operations | 20 |

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)***

**223** 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)***

**224** In preparing a company's statement of cash flows complying with IAS 7 *Statements of Cash Flows*, 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) Tax paid

(3) Bonus issue of shares

**A** 1 only

**B** 2 only

**C** 3 only

**D** None of them ***(2 marks)***

**225** Which of the following assertions about statements 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)***

**226** 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)***

**227** A statement of cash flows prepared in accordance with IAS7 *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)***

**228** Ollivander, a limited liability company, sold a non-current asset at a loss during the year ended 31st December 2009.

How is this transaction treated in Olllivander's statement of cash flows?

| | **Loss on disposal** | **Proceeds of sale** |
|---|---|---|
| **A** | Added to profit in the calculation of cash from operating activities | Cash inflow from operating activities |
| **B** | Added to profit in the calculation of cash from operating activities | Cash inflow from investing activities |
| **C** | Deducted from profit in the calculation of cash from operating activities | Cash inflow from operating activities |
| **D** | Deducted from profit in the calculation of cash from operating activities | Cash inflow from investing activities |

***(2 marks)***

**229** The following information has been extracted from the accounting records of Potter, a company:

| | $ |
|---|---|
| Cash sales | 13,780 |
| Profit before tax | 25,600 |
| Receivables at start of period | 10,540 |
| Receivables at end of period | 29,140 |
| Credit sales | 164,300 |
| Payables at start of period | 9,380 |
| Payables at end of period | 23,460 |
| Credit purchases | 81,290 |
| Inventory at start of period | 11,700 |
| Inventory at end of period | 12,560 |
| Expenses paid in cash | 18,230 |
| Amounts paid to staff | 45,000 |

What amount of cash is generated from operations? $ ***(2 marks)***

**230** The following information is available about the non-current assets of Burrow, a company:

| | **B/f** | **C/f** |
|---|---|---|
| | $ | $ |
| Carrying value | 340,000 | 439,000 |
| Revaluation reserve | - | 100,000 |
| | | $ |
| Disposals at cost | | 120,000 |
| Accumulated depreciation on disposals | | 75,000 |
| Depreciation charge for the year | | 23,000 |

How much cash has been invested in non-current assets during the year?

**A** $67,000

**B** $142,000

**C** $167,000

**D** $97,000 ***(2 marks)***

**231** Which of the following is **not** an advantage of a statement of cash flows?

**A** It cannot be manipulated through use of accounting policies

**B** It presents information on liquidity that is not available from the statement of comprehensive income or statement of financial position

**C** It helps users to see how much cash is available after mandatory payments

**D** It provides information about future cash flows ***(1 mark)***

**232** Boris provides the following information for the financial year just ended:

| | $ |
|---|---|
| Cash paid to acquire non-current assets | 126,900 |
| Proceeds from the sale of non-current assets | 34,500 |
| Depreciation  charge for year | 57,800 |
| Loss on disposal of non-current assets | 2,900 |

What were the net cash flows during the period arising from the acquisition and disposal of non-current assets?

**A** $34,600 outflow of cash

**B** $92 400 outflow of cash

**C** $95,300 outflow of cash

**D** $150,200 outflow of cash ***(1 mark)***

**233** The following information is shown in the statement of financial position of Japan, a company:

| | **Share capital** | **Share premium** |
|---|---|---|
| | $ | $ |
| 31 Dec 2008 | 120,000 | 240,000 |
| 31 Dec 2009 | 175,000 | 255,000 |

Share issue costs of $9,000 were incurred during the year.

What is the net cash inflow from financing in Japan's statement of cash flows for the year ended 31 December 2009?

**A** $70,000

**B** $55,000

**C** $61,000

**D** $79,000 ***(2 marks)***

**234** Remus, a company, made a profit for the year of $21,980, after accounting for depreciation of $670.

During the year, tax of $3,000 was paid, interest of $80 was received, a bank loan of $10,000 was repaid, receivables increased by $500, inventories decreased by $230 and payables increased by $430.

The increase in cash and bank balances during the year was:

**A** $8,550

**B** $9,570

**C** $9,890

**D** $8,230 ***(2 marks)***

**235** The following information is provided by Oslo, which has an operating profit in the year ended 30 November 2009 of $156,700:

(1) Depreciation of $12,700 has been charged to the income statement.

(2) Extract from statement of financial position

| | **2009** | **2008** |
|---|---|---|
| | $ | $ |
| Inventory | 13,800 | 13,900 |
| Receivables | 17,990 | 18,540 |
| Prepayments | 250 | 670 |
| Payables | 19,500 | 17,340 |
| Interest accrual | 1,300 | 1,450 |

What is the cash generated from operations?

**A** $166,320

**B** $166,170

**C** $172,480

**D** $172,630 ***(2 marks)***

# Incomplete records

**236** The following information is available for Orset, a sole trader who does not keep full accounting records.

| | $ |
|---|---|
| Inventory 1 July 2009 | 138,600 |
| Inventory 30 June 2010 | 149,100 |
| Purchases for the year to 30 June 2010 | 716,100 |

Orset makes a standard gross profit of 30 per cent on sales.

Based on these figures, what is Orset's sales figure for the year ended 30 June 2010?

**A** $2,352,000

**B** $1,038,000

**C** $917,280

**D** $1,008,000 ***(2 marks)***

 

**237** The following information is available for the year ended 31 December 2009 for a trader who does not keep proper accounting records:

| | |
|---|---|
| Inventories at 1 January 2009 | $38,000 |
| Inventories at 31 December 2009 | $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)***

**238** Wanda keeps no accounting records. The following information is available about her position and transactions for the year ended 31 December 2009:

| | $ |
|---|---|
| Net assets at 1 January 2009 | 210,000 |
| Drawings during 2009 | 48,000 |
| Capital introduced during 2009 | 100,000 |
| Net assets at 31 December 2009 | 400,000 |

Based on this information, what was Wanda's profit for 2009?

**A** $42,000

**B** $242,000

**C** $138,000

**D** $338,000 ***(2 marks)***

**The following information is relevant for questions 239 and 240.**

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 2009:

| | $ |
|---|---|
| e receivables, 1 December 2008 | 130,000 |
| e payables, 1 December 2008 | 60,000 |
| ı received from customers | 686,400 |
| ı paid to suppliers | 302,800 |
| ounts allowed | 1,400 |
| ounts received | 2,960 |
| debts | 4,160 |
| unt due from a customer who is also a supplier offset against an amount due for goods supplied by him | 2,000 |
| e receivables, 30 November 2009 | 181,000 |
| e payables, 30 November 2009 | 84,000 |

**239** Based on the above information, what figure should appear in A's income statement for the year ended 30 November 2009 for sales revenue?

**A** $748,960

**B** $748,800

**C** $744,960

**D** $743,560 ***(2 marks)***

**240** Based on the above information, what figure should appear in A's income statement for the year ended 30 November 2009 for purchases?

**A** $283,760

**B** $325,840

**C** $329,760

**D** $331,760 ***(2 marks)***

**241** A sole trader fixes her prices by adding 50% to the cost of all goods purchased. On 31st October 2009 a fire destroyed a considerable part of the inventory and all inventory records.

Her trading account for the year ended 31 October 2009 included the following figures:

| | $ | $ |
|---|---|---|
| Sales | | 281,250 |
| Opening inventory at cost | 183,600 | |
| Purchases | 249,200 | |
| | 432,800 | |
| Closing inventory at cost | 204,600 | |
| | | 228,200 |
| Gross profit | | 53,050 |

Using this information, what inventory loss has occurred?

**A** $61,050

**B** $87,575

**C** $40,700

**D** $110,850 ***(2 marks)***

**242** 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

**D** Closing net assets plus Drawings plus Capital introduced minus Opening net assets ***(2 marks)***

**243** 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 2010 is as follows:

| | $ |
|---|---|
| Recorded sales revenue | 181,600 |
| Cost of sales | 114,000 |
| Gross profit | 167,600 |

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)***

**244** A business has compiled the following information for the year ended 31 October 2009:

| | $ |
|---|---|
| Opening inventory | 386,200 |
| Purchases | 989,000 |
| Closing inventory | 422,700 |

The gross profit as a percentage of sales is always 40%.

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)***

**245** On 30 September 2009 part of the inventory of a company was completely destroyed by fire. The following information is available:

- Inventory at 1 September 2009 at cost $49,800.
- Purchases for September 2009 $88,600.
- Sales for September 2009 $130,000.

- Inventory at 30 September 2009 – 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)***

**246** Laurie keeps no accounting records. He has ascertained the following information about his sole trader business:

| | | $ |
|---|---|---|
| Capital at 1 October 2008 | | 234,000 |
| Capital at 30 September 2009 | | 306,000 |
| | | |
| During the year ended 30 September 2009: | | |
| Cash withdrawn from the business | | 71,000 |
| Lottery winnings paid into business bank account | | 100,000 |
| Goods taken from the business by Laurie | – cost | 12,000 |
| | – selling price | 20,000 |

Laurie also remembers paying his income tax bill of $16,000 from the business bank account.

What is Laurie's profit for the year?

**A** $71,000

**B** $79,000

**C** $55,000

**D** $63,000 ***(2 marks)***

**247** Magall makes all sales for cash and sells goods for 150% of their cost. In July, the following information was recorded:

| | $ |
|---|---|
| Opening inventory | 12,000 |
| Purchases | 31,000 |
| Cash banked | 40,000 |
| Closing inventory | 13,400 |

Which TWO of the following may independently explain the discrepancy?

(1) Goods costing $4,400 have been withdrawn from the business by its owner.

(2) $4,400 has been stolen from the till prior to banking.

(3) Goods costing $2,933 have been stolen.

(4) Purchases of $2,933 have not been recorded.

**A** 1 and 4

**B** 3 and 4

**C** 1 and 2

**D** 2 and 3 ***(2 marks)***

**248** A fire in the offices of Lestrange has destroyed most of the accounting records.

The following information has been retrieved:

| | $ |
|---|---|
| Sales | 780,000 |
| Opening inventory | 15,760 |
| Closing inventory | 13,400 |
| Opening payables | 45,670 |
| Closing payables | 39,900 |

Gross profit for the period should represent a mark-up of 20%.

What was the amount of payments to suppliers for purchases?

**A** $783,500

**B** $647,730

**C** $641,960

**D** $653,500 ***(2 marks)***

**249** Blaine has extracted the following from his accounts:

| | $ |
|---|---|
| Purchases | 140,920 |
| Opening inventory | 12,000 |
| Closing inventory | 14,500 |
| Receivables b/f | 28,600 |
| Receivables c/f | 34,560 |
| Cash received from customers | 178,600 |

The gross profit margin of Blaine is [ %] ***(2 marks)***

**250** Ahmed runs a restaurant. He is unsure how much he made in cash sales during the year. From his bank statements he has found that total bankings amounted to $43,200. He knows that at the start of the year the till was empty, and at the end of the year it contained $1,787.

He also paid $200 wages per week out of the till and a one-off payment of $120 to a supplier and took $350 per week for himself.

What were Ahmed's cash sales?

**A** $12,693

**B** $30,507

**C** $45,657

**D** $73,707 ***(2 marks)***

 

**251** Bradley believes that a new employee has stolen cash from the till before banking the remainder. He has ascertained the following with regard to the month of August:

| | $ |
|---|---|
| Bank balance at 1 August | 2,780 |
| Bank balance at 31 August | (1,300) |
| Receipts of cheques from customers | 12,433 |
| Cheque payments to suppliers | 46,200 |
| Cash in till at 1 August | 45 |
| Cash in till at 31 August | 86 |
| Sundry expenses paid from till | 350 |
| Cash sales | 34,000 |

What amount of cash has been stolen?

**A** $3,922

**B** $1,322

**C** $4,238

**D** $33,609 ***(2 marks)***

**252** Saira makes all of her sales for cash using a 40% gross margin. She makes no sales on credit and all money received from sales goes initially into the till. She has provided the following information:

| | $ |
|---|---|
| Cash in till at start of the year | 1,890 |
| Cash in till at end of year | 2,350 |
| Cash banked | 57,800 |
| Wages paid from till | 12,800 |
| Money taken by Saira | 1,500 |
| Inventory at start of year | 3,600 |
| Inventory at end of year | 4,000 |

What is Saira's purchases figure to the nearest $?

**A** $52,229

**B** $43,936

**C** $31,143

**D** $26,224 ***(2 marks)***

**253** Which of the following represents a mark-up of 20%?

**A** Cost of sales of $16,800 and sales of $21,000

**B** Sales of $16,800 and cost of sales of $13,440

**C** Cost of sales of $14,000 and a gross profit of $2,800

**D** Sales of $14,000 and a gross profit of $2,800 ***(2 marks)***

# Consolidated financial statements

**254** On 31 July 20X7 P acquired 60% of the 100,000 $1 ordinary shares of S for a sum of $240,000. S had accumulated profits at 1 January 20X7 of $200,000 and during the year to 31 December 20X7 made a profit of $60,000.

What is the figure for purchased goodwill attributable to the equity owners of P that should appear in the consolidated statement of financial position at 31 December 20X7?

**A** $60,000

**B** $39,000

**C** $95,000

**D** $24,000 ***(2 marks)***

**255** P acquired 400,000 ordinary $1 shares in S on I January 20X5 for $850,000. At that date the share capital of S was 500,000 $1 ordinary shares and accumulated profits of $400,000. The net assets of S at 1 January 20X5 were generally at fair value with the exception of a property which had a fair value of $100,000 in excess of its book value. The fair value of the non-controlling interests at the date of acquisition by P is $200,000. The company estimates the life of goodwill to be 10 years.

What is the amount of goodwill attributable to the equity owners of P that should appear in the consolidated statement of financial position as at 31 December 20X7?

**A** $40,000

**B** $50,000

**C** $130,000

**D** $110,000 ***(2 marks)***

**256** P acquired 75% of the 600,000 $1 ordinary shares in S on 1 January 20X4. At that date S had accumulated profits of $350,000 and a share premium account balance of $100,000. P paid $840,000 for the shares in S. At 31 December 20X7 S had accumulated profits of $500,000 and P had accumulated profits of $800,000.

What are the consolidated accumulated profits as at 31 December 20X7?

**A** $1,145,000

**B** $920,000

**C** $912,500

**D** $882,500 ***(2 marks)***

**257** Consider the following statements:

1 In order for an entity to be a subsidiary of another entity the investing entity must own at least 50% of the share capital of the investee.

2 If the investing entity loses control of a subsidiary then it need no longer consolidate that subsidiary.

Which of these statements is correct?

**A** 1 only is correct.

**B** 2 only is correct

**C** Both statements are correct.

**D** Neither statement is correct. ***(2 marks)***

**258** Pride acquired 80% of the equity shares in Sense on 30 September Year 3 at a cost of \$600,000. The following information has been extracted from the financial statements of Sense.

| | 31 December Year 3 | 31 December Year 2 |
|---|---|---|
| | \$000 | \$000 |
| Equity share capital | 200 | 200 |
| Retained profits | 220 | 160 |
| Other reserves | 90 | 90 |

Sense did not pay any dividend during Year 3.

The valuation of the assets and liabilities of Sense reflect their fair value. Pride prepares its financial statements to 31 December each year. The fair value of non-controlling interests at the date of acquisition is

What is the value of the purchased goodwill in the consolidated statement of financial position at 31 December Year 3?

**A** \$204,000

**B** \$228,000

**C** \$276,000

**D** \$332,000 ***(2 marks)***

**259** On 1 March Year 2, Pack acquired 70% of the share capital of Sack at a cost of \$215,000. At that date the fair value of the net assets of Sack were \$250,000. Transaction costs incurred in making the acquisition were \$25,000. Pack has decided to account for the business combination using the full goodwill or fair value method, by attributing some goodwill to the non-controlling interests in Sack. It is estimated that at 1 March Year 2 the fair value of the non-controlling interests in Sack was \$85,000.

What was the total amount of goodwill recognised on the acquisition of Sack by Pack?

**A** \$40,000

**B** \$50,000

**C** \$65,000

**D** \$75,000 ***(2 marks)***

**260** Cheap and its subsidiary Chips have the following results for the year 20X4.

| | Cheap | Chips |
|---|---|---|
| Revenue | \$500,000 | \$250,000 |
| Cost of sales | \$250,000 | \$130,000 |
| Gross profits | \$250,000 | \$120,000 |

During the year, Cheap sold goods to Chips for $50,000, making a profit of $10,000. None of these goods remain in inventories at the year end.

What will be shown as revenue and gross profit in the 20X4 consolidated income statement?

**A** Revenue- $700,000

Gross profit - $370,000

**B** Revenue- $700,000

Gross profit - $365,000

**C** Revenue- $750,000

Gross profit - $370,000

**D** Revenue- $750,000

Gross profit - $365,000 ***(2 marks)***

**261** Park acquired 60% of the issued capital of Sand on 1st April 20X4 when Sand's retained profits were $100,000.

Goodwill arising on the acquisition amounted to $30,000. No impairment has been recognised since the acquisition.

During the accounting period to 31st March 20X5, Sand sold goods to Park for $160,000 making a mark-up of 25% on cost.

At the end of this accounting period, Park included in its inventory value $10,000, being the price paid for goods purchased from Sand.

At 31st March 20X5, the retained profits in the statements of financial position of the individual companies are: Park $200,000; Sand $150,000.

Based on the information above, what figure will appear as group retained profits in the consolidated statement of financial position of the Park Group as at 31st March 20X5?

**A** $320,000

**B** $230,000

**C** $228,800

**D** $198,800 ***(2 marks)***

**262** Boo is a subsidiary of Betty. At the year end Boo has a current account balance debit balance of $50,000, but Betty has a current account credit balance of only $40,000.

Which of the following two reasons might explain the difference?

1 Boo had posted a cheque for $10,000 to Betty on the last day of the year

2 Betty had posted a cheque for $10,000 to Boo on the last day of the year

3 Betty had despatched $10,000 of inventory to Boo on the last day of the year

4 Boo had despatched $10,000 of inventory to Betty on the last day of the year

**A** 1 and 3

**B** 1 and 4

**C** 2 and 3

**D** 2 and 4 ***(2 marks)***

**263** Basil has an 80% subsidiary Brush. In the last month of the year, Basil sold inventory to Brush for $12,000, making a mark up of 20% on cost. The goods are still held by Brush at the year end.

If Basil has an inventory balance of $90,000 and Brush has $60,000, what will be the inventory figure in the consolidated statement of financial position?

A $180,000

B $148,000

C $147,600

D $148,400 ***(2 marks)***

**264** Jack has owned a 90% subsidiary John for many years, but then purchased a 75% subsidiary Jim half way through this year. The revenue of each company is as follows:

| | |
|---|---|
| Jack | $100,000 |
| John | $90,000 |
| Jim | $80,000 |

During the year, John sold goods to Jack for $20,000. These items were then sold outside of the group by Jack just before the end of the year.

What is the consolidated revenue figure for the year?

**A** $250,000

**B** $210,000

**C** $230,000

**D** $270,000 ***(2 marks)***

**265** Bill sells inventory costing $20,000 to his subsidiary Ben for $30,000. By the end of the year, Ben has just half of this inventory remaining.

If the sales of the two companies were: $100,000 and $80,000 respectively, and the cost of sales were $50,000 and $40,000, calculate the consolidated revenue and profit for the year.

**A** Revenue $150,000; Profit $85,000

**B** Revenue $180,000; Profit $85,000

**C** Revenue $150,000; Profit $80,000

**D** Revenue $180,000; Profit $80,000 ***(2 marks)***

**266** Hali owns 55% of Fax. In 20X8 Fax made a profit after tax of $40,000. During the year Hali sold goods costing $20,000 to Fax at a mark up of 40%. Two thirds of these goods had been sold outside of the group by the year end.

Calculate the non-controlling interest to be shown in the consolidated profit for 20X7.

**A** $14,400

**B** $15,600

**C** $16,800

**D** $18,000 ***(2 marks)***

 

# Associates

**267** Palli acquired 25% of the equity capital of Alli on 1 January 20X4 at a cost of $120,000. At this date the retained profits of Alli were $100,000.

The issued capital of Alli has remained unchanged since this date at $200,000.

The investment has suffered an impairment of $10,000 since the date of acquisition.

The net assets of Alligator at 31 December 20X4 amount to $360,000.

What is the equity value of the investment in the consolidated statement of financial position as at 31 December 20X4?

**A** $90,000

**B** $125,000

**C** $54,000

**D** $81,000 ***(2 marks)***

**268** Which of the following is the IAS 28 definition of an 'associate'?

**A** An entity in which an investor has significant influence but not control or joint control

**B** An entity in which an investor has influence but not control or joint control

**C** An entity in which an investor has influence

**D** An entity in which the investor has joint control ***(1 marks)***

**269** IAS 28 defines significant influence in relation to associates as:

**A** Power to participate in policy decisions

**B** Power to participate in financial and operating policy decisions but not control them

**C** Power to participate in policy decisions but not control them

**D** Power to participate in financial and operating policy decisions ***(1 marks)***

**270** Which of the following investments should be accounted for by Company X as associates?

I 18% of the equity capital of Company A. Company X is the largest shareholder in this company, has a director on its board, and provides management expertise.

II 23% of the equity share capital of Company B.

Company X has no representative on the board and takes no part in the management of Company B

The majority shareholders in Company B have historically used their combined voting rights to keep any nominee of Company X off the board.

III 50% of the equity share capital of Company C. The remaining 50% is held by an unrelated company. Policy decisions relating to Company C must be agreed to by both of its shareholders.

IV 46% of the equity share capital of Company D. The other shareholdings are split between various small investors. Company X nominates eight of the ten directors on the board of Company D, under a written agreement between the two companies.

**A** I only

**B** I and II only

**C** I, II and III only

**D** All four investments ***(2 marks)***

**271** Matthew has held a 90% subsidiary, Mark, for many years, and 3 months before the year end, acquired a 40% associate, Luke.

Their turnover figures for the year were:

| | |
|---|---|
| Matthew | $200,000 |
| Mark | $150,000 |
| Luke | $100,000 |

Calculate the turnover figure to appear in the consolidated income statement for the group.

**A** $350,000

**B** $390,000

**C** $360,000

**D** $375,000 ***(2 marks)***

**272** When accounting for an associate, which of the following methods is used:

**A** Acquisition accounting

**B** Proportionate consolidation

**C** Equity accounting

**D** Pooling of interests ***(1 marks)***

**273** Two years ago Bill purchased 60% of Bob and 10% of Ben. Bill is not able to exert significant influence over its investment in Ben. Revenue for the three companies for the year to 30th June 20X0 was:

| Revenue | Bill | Bob | Ben |
|---|---|---|---|
| | $100,000 | $80,000 | $60,000 |

The group revenue in the consolidated income statement is:

**A** $148,000

**B** $154,000

**C** $180,000

**D** $240,000 ***(2 marks)***

**274** Hill owns 70% of Slope and 30% of Bend. The tax charge for each company for the year is Hill $50,000, Slope $40,000 and Bend $30,000 respectively.

What should be shown as the tax charge in the consolidated income statement?

**A** $78,000

**B** $90,000

**C** $99,000

**D** $120,000 ***(2 marks)***

**275** Yves has an 80% subsidiary, Saint and a 40% associate, Laurent. The three companies have revenue of $100,000 each. What should be shown as the revenue figure in the consolidated income statement?

**A** $200,000

**B** $220,000

**C** $240,000

**D** $300,000 ***(2 marks)***

**276** Big has a 60% subsidiary Medium and a 40% associate Small. The three companies have profits after tax of $100,000 each.

Calculate the profit after tax for the period that will be shown in the consolidated income statement.

**A** $190,000

**B** $200,000

**C** $240,000

**D** $300,000 ***(2 marks)***

**277** EV Company has three investments. In each company it has a seat on the board of directors. Which of the investments would be considered to be an associate?

(1) 35% investment in Tom. All other shareholders have investments of less than 10%

(2) 25% investment in Dick. Another shareholder has a 75% stake in Dick

(3) 25% investment in Harry which was purchased with the intention to sell it within 12 m of the date of purchase. A buyer is actively being sought.

**A** (1) and (2)

**B** (1) and (3)

**C** (1) only

**D** (1), (2) and (3) ***(2 marks)***

**278** When equity accounting for an associate, which of these statements are correct?

(1) The parent's share of the associate's statement of comprehensive income and statement of financial position is accounted for on a line-by-line basis

(2) The associate's goodwill is disclosed as an intangible non-current asset

(3) Balances due between parent and associate should not be cancelled on consolidation

**A** (1) and (2) are correct.

 

**B** (2) and (3) are correct.

**C** (2) only is correct.

**D** (3) only is correct. ***(2 marks)***

## Interpretation of financial statements

**279** The acid test or quick ratio should include which of the following?

(1) Finished goods

(2) Trade receivables

(3) Bank overdraft

(4) Accruals

**A** (1), (2), (3) and (4)

**B** (1), (2) and (3) only

**C** (1), (2) and (4) only

**D** (2), (3) and (4) only ***(2 marks)***

**280** Apple has net current liabilities in its statement of financial position. It decides to pay off its trade payables using surplus cash. What effect will this have upon the current ratio?

**A** Decrease

**B** Increase

**C** No effect

**D** The ratio could either increase or decrease ***(2 marks)***

**281** Extracts from the income statement and statement of financial position of the Apricot Company are shown below:

| | $ |
|---|---|
| Revenue from sales (all on credit) | 500,000 |
| Cost of goods sold | 420,000 |
| Purchases (all on credit) | 280,000 |
| Receivables | 62,500 |
| Trade payables | 42,000 |
| Inventory | 185,000 |

What is the length of the working capital cycle (also known as the operating or cash cycle) to the nearest day?

**A** 170 days

**B** 152 days

**C** 261days

**D** 60 days ***(2 marks)***

**282** The following information relates to Damson, a small company:

| | 31st December 20X4 | 31st December 20X5 |
|---|---|---|
| | $ | $ |
| Non current assets | 20,000 | 34,000 |
| Inventory | 10,000 | 13,000 |
| Accounts receivable | 14,000 | 11,000 |
| Bank balance | 3,000 | 2,000 |
| Accounts payable | 11,000 | 9,000 |
| Sales on credit | 140,000 | 120,000 |
| Purchases on credit | 80,000 | 60,000 |

Which of the following statements are correct?

I Net current assets have increased between the two years

II The quick (acid test) ratio has improved between the two years

III Customers are paying more quickly in 20X5 than in 20X4

IV Damson is paying her suppliers more quickly in 20X5 than in 20X4

**A** Statements I and II only

**B** Statements I and III only

**C** Statements I and IV only

**D** Statements II and III only ***(2 marks)***

**283** Extracts from statement of financial position of Egremont at 31 March 20X4 are presented below:

| | $000 |
|---|---|
| Loans due in more than one year | 20 |
| 5% loan notes | 15 |
| Ordinary shares - $1 each fully paid | 50 |
| 6% redeemable preferred shares, $1 each fully paid | 10 |
| Retained profits | 65 |
| Revaluation reserve | 25 |
| | 185 |

The gearing ratio is (to one decimal place):

**A** 18.9%

**B** 24.3%

**C** 28.1%

**D** 43.8% ***(2 marks)***

**284** The acid test or quick ratio should include

**A** stock of finished goods

**B** raw materials and consumables

**C** long-term loans

D trade creditors ***(1 marks)***

**285** The accounts of S Ltd, which has a year end of 30 June, includes the following items.

| | *20X5* | *20X6* |
|---|---|---|
| | £000 | £000 |
| Receivables | | |
| Sale of fixed assets | 20 | 30 |
| Sale ledger | 60 | 40 |
| | 80 | 70 |

Sales for the year amounted to £350,000, of which £50,000 were cash sales.

The average receivables turnover during the year ended 30 June 20X6 was

**A** 7

**B** 6

**C** 5

**D** 4 ***(2 marks)***

**286** T Ltd produces a single product with a mark-up of 25%.

| | |
|---|---|
| Total sales for the year | £250,000 |
| Receivables collection period | 40 days |
| Average receivables | £20,000 |

The value of inventory held during the year was constant.

The cost of credit sales was

**A** £200,000

**B** £187,500

**C** £146,000

**D** £136,875 ***(2 marks)***

**287** The following are extracts from the financial statements of L Ltd for the year ended 31 December 20X2.

| *Statement of financial position* | | *Income statement* | |
|---|---|---|---|
| £ | | £ | |
| Issued share capital | 2,000 | Operating profit | 795 |
| Reserves | 1,000 | Less Debenture interest | (120) |
| | 3,000 | | 675 |
| 12% debenture stock 20X8 | 1,000 | | |
| | 4,000 | | |

What is the return on long-term funds?

**A** 22.5%

**B** 19.9%

**C** 16.9%

**D** 16.6% ***(2 marks)***

**288** W Ltd buys and sells a single product. The following is an extract from its statement of financial position at 31 December 20X7.

| | *20X7* | *20X6* |
|---|---|---|
| | £ | £ |
| Inventory | 50 | 40 |
| Receivables | 16 | 24 |

Sales and purchases during 20X7 were £200,000 and £120,000 respectively. 20% of sales were for cash.

What were the average receivables collection period and gross profit percentage for the year ended 31 December 20X7?

| | Average receivables collection period | Gross profit percentage |
|---|---|---|
| **A** | 37 days | 35% |
| **B** | 37 days | 45% |
| **C** | 46 days | 35% |
| **D** | 46 days | 45% |

***(2 marks)***

**289** The asset turnover of T Ltd is 110% of that of S Ltd.

The return on capital employed by T Ltd is 80% of that of S Ltd.

T Ltd's profit margin expressed as a percentage of that of S Ltd is

**A** 73%

**B** 88%

**C** 95%

**D** 138% ***(2 marks)***

**290** M Ltd has a current ratio of 2:1.

This ratio will decrease if M Ltd

A receives cash in respect of a long-term loan

B receives cash in respect of a short-term loan

C pays an existing trade payable

D writes off an existing receivable against the provision for doubtful debts ***(1 marks)***

**291** H Ltd has positive working capital.

What effect will the payment of a proposed dividend using cash balances have upon the current ratio and working capital?

| | *Current ratio* | *Working capital* |
|---|---|---|
| **A** | Increase | Increase |
| **B** | Increase | No effect |
| **C** | No effect | No effect |
| **D** | Decrease | Decrease |

***(2 marks)***

**292** After proposing a final dividend, K Ltd has a current ratio of 2.0 and a quick asset ratio of 0.8.

If the company now uses its positive cash balance to pay that final dividend, what will be the effect upon the two ratios?

| | *Current ratio* | *Quick asset ratio* |
|---|---|---|
| A | Increase | Increase |
| B | Increase | Decrease |
| C | Decrease | Increase |
| D | Decrease | Decrease |

***(2 marks)***

**293** The draft accounts of S Co for the year ended 31 December 20X1 include the following.

| | |
|---|---|
| Revenue | £240 million |
| Gross profit | £60 million |

It was subsequently discovered that the revenue was overstated by £30 million and the closing inventory understated by £10 million.

After correction of these errors the gross profit percentage will be

**A** 9.5%

**B** 19.0%

**C** 23.8%

**D** 33.3% ***(2 marks)***

**294** Paulo is a retail trader with a gross profit rate of 25%. The unit cost of his purchases falls by 8%. As a result he proposes to decrease his unit selling price by 10% and anticipates that this will result in an increase in the volume of sales of 15%.

What would be the effect of the above on Paulo's gross profit rate and on his absolute level of gross profit?

| | *Gross profit rate* | *Absolute level of gross profit* |
|---|---|---|
| **A** | Lower | Lower |
| **B** | Lower | Higher |
| **C** | Higher | Lower |
| **D** | Higher | Higher |

***(2 marks)***

**295** The financial statements of V plc for the year ended 31 December 20X0 reveal the following ratios.

$$\frac{\text{Sales}}{\text{Assets employed}} = 2.5$$

 

$$\frac{\text{Profit before interest and tax}}{\text{Sales}} = 7\%$$

Existing operations are expected to produce the same results in 20X1. The company is about to launch a new product which is expected to generate additional sales of £1,200,000 and additional profit before interest and tax of £96,000 in 20X1. The new product requires additional assets costing £600,000.

What will be the effect of the new product upon the following ratios of V plc?

| | $\frac{\text{Profit before interest and tax}}{\text{Sales}}$ | $\frac{\text{Profit before interest and tax}}{\text{Assets employed}}$ | |
|---|---|---|---|
| **A** | Increase | Increase | |
| **B** | Increase | Decrease | |
| **C** | Decrease | Increase | |
| **D** | Decrease | Decrease | ***(2 marks)*** |

**296** The Port Elisabeth fishmonger and the Port Elisabeth bookseller both operate on a 50% mark-up on cost. However, their gross profit ratios are as follows.

| | |
|---|---|
| Fishmonger | 25% |
| Bookseller | 33% |

The highest gross profit ratio of the bookseller may be because

**A** there is more wastage with fish stocks than with book stocks

**B** the fishmonger has a substantial bank loan whereas the bookseller's business is entirely financed by her family

**C** the fishmonger has expensive high street premises whereas the bookseller has cheaper back street premises

**D** the fishmonger's turnover is declining whereas that of the bookseller is increasing ***(2 marks)***

SECTION 2

# Q&A

# Answers to objective test questions

## The context and purpose of financial reporting

**1** **A** Investors use the financial statements of companies to make economic judgements – whether to buy, hold or sell shares in the company, and to assess future dividend prospects.

**2** **D** IFRIC is responsible for interpreting how a new standard should be applied to transactions and also deals with emerging issues. It issues Interpretations of accounting standards

**3** **A** All companies are owned by their shareholders. Small companies might be managed by their shareholder(s), but in larger companies management is the responsibility of salaried employees (executive directors).

**4** **A** **Sole trader**

- Eva would requires at least one business partner in order to set up a partnership, but she is planning to set up in busines son her own.
- If Erin sets up as a company, her accounts will be within the public domain.

**5** **D**

1. The equity capital of a company includes retained profits – profits made by the business sand reinvested. This is not cash contributed by the shareholders.
2. Sole traders are not required to make their financial statements available for public inspection: their financial statements are private.
3. The statement of financial position of any type of business entity may include any non-current liabilities.

**6** **A** True

**7** **B** The IASB does not have any powers of enforcement.

**8** **A** The Framework aids in the harmonisation of accounting practice by providing basic concepts (relevance, reliability, etc) and definitions (of assets and liabilities, etc) which should be applied to all transactions.

**9** **D**

## Qualitative characteristics of financial

**10** **A**

**11** **D**

- Substance over form means that commercial substance should be reflected in the accounts rather than legal form.
- The historical cost concept means that items in the financial statements are recorded at their initial cost.
- The IASB Framework states that information should not be excluded from the financial statements on the basis that the users of the financial statements will not understand it.

**12** **A**

**13** **A** The Framework states that the characteristics of reliability are:

- faithful representation
- substance over form
- neutrality
- prudence
- completeness.

**14** **C**

**15** **B**

**16** **D**

**17** **D** This is an application of the accruals concept.

| | $ | $ |
|---|---|---|
| Cash received | | 738,400 |
| Exclude from 2009 profits | | |
| Rent in arrears for 2008, paid in 2009 | 39,600 | |
| Prepayments of rent for 2010 | 77,700 | |
| | | (117,300) |
| Include in 2009 profits | | |
| Rent in arrears for 2009, not yet paid | 41,100 | |
| Prepayments for 2009, received in 2008 | 125,300 | |
| | | 166,400 |
| Rental income, year to 31 December 2009 | | 787,500 |

**18** **B** False

Financial statements presented on the going concern basis value assets based on the presumption that the business will continue for the foreseeable future. A number of different bases of valuation ar etherefore used, such as historical cost. Assets would be valued at realisable value if the going concern assumption could not be applied.

**19** **B** False

An asset is defined as 'a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow'. Ownership is not a requirement of an asset, and the substance over form concept may be used (e.g. with leased assets).

**20** **C**

**21** **A** The business entity concept (also known as the separate entity concept) refers to keeping the personal assets and liabilities of a sole trader or partner separate from those of the business, and treating the business entity as something separate from its owner or owners.

**22** **B** Asset values would need to be re-adjusted to their realisable value or 'break-up value'. However the business entity would still have an obligation to pay its liabilities in full.

## The accounting equation and double-entry book-keeping

**23** **D** A supplier will send a delivery note with goods being supplier to a customer. The customer will then use the document to physically check the goods received and ensure that they match to those ordered (per the purchase order).

**24** **A** A credit note is sent by the supplier. The customer sets the credit note against the invoice, and owes only the net amount.

**25** **A** If a liability is increased, then in order to keep the accounting equation another liability must be reduced, capital must be reduced or assets must be increased. Capital is reduced by a charge against profits 9i.e. by incurring an expense).

**26** **A** Opening net assets + Capital injections + Profit – Drawings = Closing net assets

Opening net assets + $1,000 + $5,600 – $3,250 = $23,900

Opening net assets = Opening capital = $20,550

**27** **C**

- Capital = Assets – Liabilities.
- Included in capital is the profit balance.
- A transaction will only affect capital if it results income or an expense (i.e. it affects profit).
- This is not true of transactions A, B or D.

**28** **B** Closing capital = Opening capital + Profit – Drawings

Closing capital = $49,750 + $35,000 – $12,000

Closing capital = $72,750

Capital = Assets – Liabilities

$72,750 = $134,700 – Liabilities

Liabilities = $134,700 – $72,750

= $61,950

**29** **A** Opening capital + Injections of capital + Profit – Drawings = Closing capital

Nil + $12,000 + $13,000 – Drawings = $54,000 – $32,000

$25,000 – Drawings = $22,000

Drawings = $3,000

Cash drawings = $3,000 – $250 (goods taken, at cost) = $2,750.

**30** **D** Opening net assets (capital) + Capital injections + Profit – Drawings = Closing net assets (capital)

Capital injections + Profit – Drawings = Closing net assets – Opening net assets

Capital injections + Profit – Drawings = Change in net assets

Capital injections + Profit – Change in net assets = Drawings

**31** **A** Opening net assets (capital) + Capital injections + Profit – Drawings = Closing net assets (capital)

(In $000s): 186 + 50 + Profit – (68 + 20) = 274

Profit = 274 – 186 – 50 = 88 = 126

**32 C** The receivables ledger is a ledger supplementary to the main accounting ledger, where accounts are maintained for individual credit customers. Entries are posted from the day books to the receivables ledger accounts.

**33 C** An introduction of capital is shown as a credit in the capital account. The capital is in the form of a machine rather than cash.

**34 D** Transaction 4: The refund of electricity charges is a reduction in an expense, so credit the expense account and debit the bank account with the cash received. (Transaction 1 would be the correct entry for credit sales, not cash sales.)

**35 B** For the other transactions, the debits and credits would have to be the other way round for the narrative to be correct, so either (1) the debits and credits are incorrect or (2) the narrative is incorrect.

**36 C**

| **Debit balances** | $ | $ |
|---|---|---|
| Receivables | 33,000 | |
| Plant and equipment | 120,000 | |
| Purchases | 140,000 | |
| Other expenses | 110,000 | |
| Bank | 18,000 | |
| | | 421,000 |
| **Credit balances** | | |
| Capital | 66,000 | |
| Sales | 280,000 | |
| Purchase returns | 2,000 | |
| Payables | 27,000 | |
| | | 375,000 |
| Bank loan (credit balance) | | 46,000 |

**37 C** The journal is used to record less common transactions and those that are not recorded in any other book of prime (original) entry. This may include:

- year-end adjustments
- correction of errors
- purchase/sale of non-current assets
- non-cash capital injections/drawings.

***Tutorial note*:** The non-current asset register is not a book of prime entry.

**38 A**

# Recording transactions: sales, purchases and cash

**39** **A** Dr Receivables account

Cr Sales tax account

Cr Sales

**40** **D**
- Amounts are always recorded gross in the payables/receivables ledger control accounts.
- Sales and purchases in the income statement are always recorded net of sales tax.

**41** **A**

**Payables account**

| | $ | | $ |
|---|---|---|---|
| Cash paid to suppliers | X | Payables b/f | X |
| Purchase returns | X | Credit purchases | |
| Discounts received | X | | |
| Contra with Receivables | X | | |
| Payables c/f | X | | |
| | X | | X |

**42** **C** The cash receipts book may include a memorandum column for discounts given to customers. The correct double entry for the total of this column is:

Dr Discounts allowed

Cr Sales ledger control account

**43** **C** If output tax (tax on sales) exceeds input tax (tax on purchases), then the excess is **payable to** the authorities.

**44** **B** The correct entry for a sale is:

| | |
|---|---|
| Dr Receivables | Gross amount |
| Cr Sales tax | Tax |
| Cr Sales | Net amount |

The correct entry for a sales return is therefore the reverse:

| | |
|---|---|
| Dr Sales returns | Net amount |
| Dr Sales tax | Tax |
| Cr Receivables | Gross amount |

**45** **A**

| | | |
|---|---|---|
| Tax on sales | 17.5/117.5 × $611 | $91 |
| Tax on purchases | 17.5% × $320 | ($56) |
| Tax payable to authorities | | $35 |

**46 C**

**Sales tax**

| | $ | | $ |
|---|---|---|---|
| | | Balance b/f | 27,981 |
| Tax on purchases: | | Tax on sales: | |
| 17.5/117.5 × $141,000 | 21,000 | 17.5% × $200,000 | 35,000 |
| Balance c/f | 41,981 | | |
| | 62,981 | | 62,981 |

**47 D**

**48 A**

| | Dr | Cr |
|---|---|---|
| | $ | $ |
| Car | 18,000 | |
| Property | 200,000 | |
| Inventory | 3,990 | |
| Payables and accruals | | 4,321 |
| Receivables and prepayments | 5,600 | |
| Bank overdraft | | 90 |
| Loan | | 45,000 |
| Capital | | 90,000 |
| Drawings | 19,000 | |
| Sales | | 380,000 |
| Purchases | 199,500 | |
| Carriage in | 3,000 | |
| Discounts allowed | 3,270 | |
| Discounts received | | 6,839 (β) |
| Sundry expenses | 73,890 | |
| | 526,250 | 526,250 |

**49 B** $4,000 × 95% = $3,800

- Trade discounts are given at source and therefore the sales price after this discount should be the amount initially recorded.
- If a settlement discount is taken by the customer, this should be recorded at a later stage when payment is actually received within the stipulated time.

**50 B**

- The purchase is recorded net of the trade discount but before the settlement discount:

  $5,600 – $200 = $5,400

- Only a settlement discount is recorded as a discount. The settlement discount is calculated on the invoice price, which excludes the trade discount:

  $5,400 × 2% = $108

- Cash paid is after both types of discount:
  $5,600 – $200 – $108 = $5,292

**51 C**

| | $ |
|---|---|
| Tax exclusive list price | 300.0 |
| Trade discount | (15.0) |
| | 285.0 |
| Settlement discount (2%) | (5.7) |
| Tax exclusive price net of discounts | 279.3 |

Sales tax: 10% × $279.30 = $27.93

***Tutorial note*:** Sales tax is always charged on the price net of all discounts, i.e. it is assumed that the prompt payment (settlement) discount will be taken. If this discount is not taken, no adjustment is necessary as the extra amount paid is regarded by the authorities as interest which is not taxable to sales tax.

## Inventory

**52 B**

| | $ | $ |
|---|---|---|
| Sales | | 34,900 |
| Purchases | 17,950 | |
| Closing inventory ($2,700 – (10 × $80) | (1,900) | |
| | | 16,050 |
| Gross profit | | 18,850 |

**53 C** The desk is for Mrs Duncan's use in the office in her capacity as an employee of Hamish. Therefore it does not qualify as drawings. The desk is being transferred out of goods for resale (hence a credit to cost of sales) and into non-current assets (hence a debit).

**54 A**

| | $ |
|---|---|
| Value per inventory count | 836,200 |
| Purchases since year end | (8,600) |
| Sales since year end – at cost (14,000 × 70/100) | 9,800 |
| Returns to supplier | 700 |
| | 838,100 |

**55 D**

| | $ |
|---|---|
| Value per inventory count | 483,700 |
| Purchases since year end | (38,400) |
| Sales since year end – at cost (14,000 × 70/100) | 14,800 |
| Returns from customer | (400) |
| Returns to supplier | 1,800 |
| | 461,500 |

**56 C** Carriage outwards is an expense which should be shown beneath the gross profit line.

**57 D** Inventory is valued at the lower of cost and net realisable value. Cost might be much lower than net realisable value.

**58 A** The drawings account must be debited. The matching credit entry should be to Purchases, in order to prevent the cost of sales for the period from being overstated,

**59 B** Opening inventory must be charged as an expense in the income statement, therefore debit income statement and credit inventory. Closing inventory must be kept out of the cost of sales and included as an asset in the statement of financial position; so debit Inventory and credit Income statement.

**60 D** Costs of carriage inwards are included in overhead costs if they cannot be attributed directly to specific materials. The costs of a factory manager are part of production overheads, which are included in inventory valuation.

**61 A**

| | $ |
|---|---|
| Draft closing inventory | 386,400 |
| (1) | (3,800) |
| (2) | – |
| Revised closing inventory | 382,600 |

***Workings***

(W1) Cost 1,000 × $18 = $18,000

NRV (1,000 × $15) – $800 = $14,200

Therefore write down by $3,800 to NRV.

(W2) Cost 5 × $100 = $500

NRV 5 × $1,000 = $5,000

No adjustment required as cost is less than NRV.

**62 C**

- Opening inventory is an expense in the income statement. Therefore understating it results in overstated profit

- Closing inventory reduces cost of sales in the income statement. Therefore understating it means that cost of sales is too high and so profit too low (understated).

**63** **A** The goods were received before the end of the year and so would be correctly stated in inventory. However the purchase was not recorded until the following year, which means that purchases and cost of sales in the previous year (to 31 December 2009) were understated. Since the cost of sales was understated, profit was overstated for the year to 31 December 2009.

**64** **B** Inventory drawings reduce the amount of inventory available for sale. The credit entry is therefore made to purchases to reduce the cost of goods sold.

**65** **A**

| | |
|---|---|
| Draft closing inventory | 284,700 |
| (1) | (3,500) |
| (2) | – |
| Revised closing inventory | 281,200 |

***Workings***

(W1) Cost 400 × \$80 = \$32,000

NRV (400 × 75) × 95% = 28,500

Therefore write down by \$3,500 to NRV.

(W2) Cost 800 × \$20 = \$16,000

NRV (800 × \$(28 – 5)) – \$17,600

Therefore no adjustment is required.

**66** **A**

| | **Units** |
|---|---|
| Opening inventory | 700 |
| Purchases | 800 |
| Sales | (650) |
| Closing inventory | 850 |

| | | | $ |
|---|---|---|---|
| Valued at most recent prices: | 300 at \$230 | = | 69,000 |
| | 500 at \$220 | = | 110,000 |
| | 50 at \$190 | = | 9,500 |
| | | | 188,500 |

**67** **A**

**68** **D**

**69** **C** Finished goods inventories and work in progress inventories must include a share of production overhead costs. In some businesses, such as retail businesses, it may be acceptable for inventory to be valued at selling price minus the estimated profit margin. Inventory should be valued at the lower of cost and net realisable value.

**70 B**

| | Units | $ total | $/ unit |
|---|---|---|---|
| Opening inventory | 15 | 72.00 | 4.80 |
| 1st April Purchase | 10 | 53.00 | 5.30 |
| | 25 | 125.00 | 5.00 |
| 6th April Sale | (8) | (40.00) | 5.00 |
| | 17 | 85.00 | 5.00 |
| 15th April Purchase | 8 | 44.00 | 5.50 |
| | 25 | 129.00 | 5.16 |
| 27th April Sale | (10) | (51.60) | 5.16 |
| | 15 | 77.40 | 5.16 |

**71 B** With periodic weighted average valuation of inventory, a single weighted average cost per unit is calculated at the end of the accounting period. This average cost is applied to all issues of inventory from store in the period and also to units of closing inventory. The weighted average cost calculation should include the opening inventory.

| | | $ | |
|---|---|---|---|
| Opening inventory | 15 at $7.60 | 114.00 | |
| October purchases | 15 at $9.80 | 147.00 | |
| December purchases | 20 at $12.50 | 250.00 | |
| Total | 50 | 511.00 | = $10.22 per item on average |

## Non-current assets

**72 D** Prudence is the most applicable concept to the valuation of inventory at the lower of cost and net realisable value. The accruals concept is relevant in the other cases as:

- depreciation ensures that the cost of a non-current asset is matched to the income generated by it
- the inventory adjustment in the income statement ensures that only the cost of those goods sold in a period is matched to the sales revenue
- the recording of deferred income ensures that income received in one period but relating to the next is not recorded in the current period.

**73 D** At the date of revaluation, the accumulated depreciation on building is:

$2,000,000 × 2% × 5 years = $200,000

On revaluation:

Dr Building $1,000,000

Dr Accumulated depreciation $200,000

Cr Revaluation Reserve $1,200,000

Depreciation on the revalued amount:

$3,000,000 / 40 years = $75,000

**74** **D** Depreciation on:

| | | $ |
|---|---|---|
| Assets owned throughout the year | $(240,000 – 60,000) × 20% | 36,000 |
| New assets | $160,000 × 20% × 6/12 | 16,000 |
| Assets disposed of | $60,000 × 20% × 3/12 | 3,000 |
| | | 55,000 |

**75** **A**

- Capitalised development expenditure must be amortised over the period when it will bring economic benefit to the company.
- If the conditions of IAS 38 are met, development expenditure MUST be capitalised.
- Amortisation of development expenditure appears in the income statement.

**76** **A** The correction requires two steps:

| | | |
|---|---|---|
| 1 | Remove $20,000 from plant repairs account and capitalise as a non-current asset. | Increase profit by $20,000 |
| 2 | Depreciate motor car ($20,000 – $4,000) × 20% × 6/12 = $1,600 | Decreases profit by $1,600 |

Overall impact on profit: Increase of $18,400, meaning it was previously understated by this amount.

**77** **B** Depreciation on:

| | | $ |
|---|---|---|
| Assets owned throughout the year | $(380,000 – 30,000) × 20% | 70,000 |
| New assets | $51,000 × 20% × 9/12 | 7,650 |
| Assets disposed of | $30,000 × 20% × 3/12 | 1,500 |
| | | 79,150 |

**78** **C** Depreciation charge per year

$$= \frac{\text{Cost - Residual value}}{\text{Useful life}}$$

$$= \frac{\$40{,}000 - \$4{,}000}{10 \text{ years}}$$

= $3,600

Charge for 1st July 2009 – 30th Sept 2009 = 3/12 × $3,600

= $900

 

**79 C**

| | $ |
|---|---|
| Plant and equipment at cost | |
| Brought forward | 860,000 |
| Additions | 180,000 |
| Disposals | (80,000) |
| Carried forward | 960,000 |
| Accumulated depreciation | |
| Brought forward | 397,000 |
| Charge for year (10% × $960,000) | 96,000 |
| Disposals $(80,000 – 37,000) | (43,000) |
| Carried forward | 450,000 |
| Carrying value carried forward | 510,000 |

**80 C** ***Tutorial note:***

- Accounting standards require that revaluations are carried out sufficiently regularly to ensure that the carrying value of an asset is not materially different from its fair value. This is not necessarily every year.
- A revaluation policy must be applied consistently to each class of assets, but not necessarily to all classes.
- The revaluation surplus is not distributable, i.e. it cannot be used to pay a dividend. Upon disposal, the gain is realised and so becomes distributable. To reflect this, the balance on the revaluation reserve is transferred to retained earnings.

**81 C**

| | $ |
|---|---|
| Purchase price | 230,000 |
| Delivery | 1,200 |
| Modifications to factory | 12,000 |
| | 243,200 |

***Tutorial note***: Sales tax is not included in the cost of the machine as this is recoverable from the tax authorities.

**82 B**

| Loss on disposal of old asset: | $ |
|---|---|
| Cost | 46,000 |
| Accumulated depreciation $46,000 × 8 years/10 years | (36,800) |
| Carrying value | 9,200 |
| Proceeds | 5,000 |
| Loss on disposal | 4,200 |

The new asset is recorded at cost, $50,000.

**83 B**

**84 D** ***Tutorial note*:**

- Depreciation aims to match the cost of a non-current asset to the income generated by it over its useful life.
- There is no requirement to depreciate land.

**85 B** This characteristic is typical of some types of non-current asset, such as motor vehicles and IT equipment.

**86 C** ***Tutorial note*:** A non-current asset register is a detailed schedule of all non-current assets held by a business. It includes details such as cost, depreciation method, depreciation to date, useful life, location, etc. Periodically, the register is reconciled to the ledger accounts for non-current assets.

**87 A**

| **Ledger accounts** | | **Asset register** | |
|---|---|---|---|
| | $ | | $ |
| Recorded cost | 345,400 | Draft carrying value | 70,300 |
| Recorded depreciation | (198,700) | Revaluation not recorded | 50,000 |
| Recorded NBV | 146,700 | Addition not recorded | 10,000 |
| Disposal not yet recorded (at carrying amount) | (18,400) | Depreciation on addition 20% × $10,000 | (2,000) |
| | 128,300 | | 128,300 |

**88 D**

- Project A is a research project and therefore associated costs must be written off to the income statement.
- Project C is a development project. However, it appears that resources are not available to complete it. For this reason, associated costs should not be capitalised but should be written off to the income statement as incurred.

**89 B** On revaluation:

| | | |
|---|---|---|
| | Dr Building cost $(1,125,000 – 800,000) | $325,000 |
| | Dr Accumulated depreciation ($800,000 × 2% × 5) | $80,000 |
| | Cr Revaluation reserve | $405,000 |
| Depreciation for 2009 | Dr Depreciation expense ($1,125,000 / 45 years) | $25,000 |
| | Cr Accumulated depreciation | $25,000 |
| Reserves transfer | Dr Revaluation reserve $25,000 – (2% × $800,000) | $9,000 |
| | Cr Retained earnings | $9,000 |

Balance on the revaluation reserve: $405,000 – $9,000

$396,000

**90 C**

| Ledger accounts | $ | Asset register | $ |
|---|---|---|---|
| Draft carrying value | 348,000 | Draft carrying value | 345,000 |
| Depreciation correction | 2,000 | Addition not recorded | 15,000 |
| | | Disposal correction | (10,000) |
| | 350,000 | | 350,000 |

**91 A**

| | $ | Income statement $ |
|---|---|---|
| Cost | 45,000 | |
| Accumulated depreciation at disposal | | |
| 2008: $45,000 × 20% | (9,000) | |
| 2009: $36,000 × 20% × 7/12 | (4,200) | 4,200 |
| Carrying value at disposal | 31,800 | |
| Proceeds | 32,000 | |
| Profit on disposal | 200 | (200) |
| Income statement charge | | 4,000 |

**92 D** In order to qualify for costs to be capitalised, a development project must be commercially viable. There is, however, no need for an ultimate consumer to have placed an order.

**93 B**

| | | |
|---|---|---|
| Carrying value b/f | | 340,000 |
| Carrying value of asset disposed of: | | |
| Proceeds | 15,000 | |
| Profit | (2,000) | |
| | | (13,000) |
| Carrying value c/f | | 327,000 |

**94 C** Depreciation on:

| | | $ |
|---|---|---|
| Assets owned throughout the year | $(280,000 – 14,000) × 20% | 53,200 |
| New assets | $48,000 × 20% × 9/12 | 7,200 |
| | $36,000 × 20% × 4/12 | 2,400 |
| Assets disposed of | $14,000 × 20% × 6/12 | 1,400 |
| | | 64,200 |

**95 C** The cost of the asset can include carriage inwards and installation costs, but not costs for repairs and maintenance. Therefore cost = $(48,000 + 400 + 2,200) = $50,600.

**96 A**

**97 B** Original annual depreciation = $(80,000 – 20,000)/8 years = $7,500 per year.

The change in the estimated life of the asset is made on 31 December 2009, and this means that the change should be applied for the year ending 31 December 2009.

| | | $ |
|---|---|---|
| Cost | | 80,000 |
| Accumulated depreciation to 31 December 2008 | (2 years × $7,500) | 15,000 |
| Carrying amount at 1 January 2009 | | 65,000 |
| Residual value | | 20,000 |
| Remaining depreciable amount as at 1 January 2009 | | 45,000 |

Remaining life from 1 January 2009 = 4 years

Annual depreciation = $45,000/4 years = $11,250.

Net book value (carrying amount at 31 Dec 2009 = $65,000 - $11,250 = $53,750.

**98 B**

| | | $ |
|---|---|---|
| Cost, 1 January 2008 | | 800,000 |
| Accumulated depreciation to 31 December 2009 | (2 years × $16,000) | 32,000 |
| Carrying amount at 31 December 2009 | | 768,000 |
| Revalued to | | 960,000 |
| Transfer to revaluation reserve | | 192,000 |

Annual depreciation will now be $960,000/48 years remaining = $20,000 per year.

| | | $ |
|---|---|---|
| Valuation, 1 January 2010 | | 960,000 |
| Accumulated depreciation to 31 March 2010 | (3/12 × $20,000) | 5,000 |
| Carrying amount at 31 March 2010 | | 955,000 |
| Disposal price | | 980,000 |
| Profit on disposal reported in profit and loss | | 25,000 |

The balance on the revaluation reserve will be transferred to realised profits, but this will not be reported in profit and loss.

# Accruals and prepayments. Receivables and payables

**99 D**

| **Rental income** | $ | $ |
|---|---|---|
| Cash received | | 318,600 |
| Exclude from profit and loss for the year | | |
| Rent received in advance for 2010 | 28,400 | |
| Cash received for rent in arrears from 2008 | 16,900 | |
| | | (45,300) |
| Include in profit and loss for the year | | |
| Rent for 2009 received in advance in 2008 | 24,600 | |
| Rent in arrears for 2009, not yet received | 18,300 | |
| | | 42,900 |
| Total rental income for year to 31 December 2009 | | 316,200 |

You might prefer to see the answer in the form of a T account.

**Rental income**

| | $ | | $ |
|---|---|---|---|
| Balance b/f (owing) | 16,900 | Balance b/f (received in advance) | 24,600 |
| Rental income (= answer) | 316,200 | Cash received | 318,600 |
| Balance c/f (received in advance) | 28,400 | Balance c/f (owing) | 18,300 |
| | 361,500 | | 361,500 |

**100 A** Rental cost per month = $60,000/18 months = $3,333.33

| Rent costs | $ | $ |
|---|---|---|
| Cash paid | | 60,000 |
| Exclude from profit and loss for 2009 | | |
| Rent for 3 months 1 Oct – 31 Dec 2008 | 10,000 | |
| Rent for 3 months 1 Jan – 31 March 2010 | 10,000 | |
| | | (20,000) |
| Rental charge for year to 31 December 2009 | | 40,000 |

At the end of 2009, 3 months of rent had been prepaid. Therefore there is a prepayment of $10,000 in the statement of financial position (a current asset).

**101 B**

| | $ | $ |
|---|---|---|
| Total receivables at 31 December 2009 | 864,000 | |
| Bad debts written off | (13,000) | (13,000) |
| Total receivables after bad debts written off | 851,000 | |
| Allowance for irrecoverable debts at 31 Dec (= 5%) | 42,550 | |
| Opening allowance for irrecoverable debts at 1 January | 48,000 | |
| Reduction in allowance | | 5,450 |
| Charge for the year for bad and doubtful debts | | (7,550) |

| | $ |
|---|---|
| Total receivables at 31 December 2009 after bad debts | 851,000 |
| Less: Allowance for irrecoverable debts | (42,550) |
| Receivables in statement of financial position | 808,450 |

This can be shown in double entry format, as follows.

**Receivables**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 864,000 | Debts written off | 13,000 |
| | | Balance c/f | 851,000 |
| | 864,000 | | 864,000 |

**Allowance for doubtful debts**

| | $ | | $ |
|---|---|---|---|
| Bad and doubtful debt expense (β) | 5,450 | Balance b/f | 48,000 |
| Balance c/f 5% × $851,000 | 42,550 | | |
| | 48,000 | | 48,000 |

**Bad and doubtful debts**

| | $ | | $ |
|---|---|---|---|
| Receivables written off | 13,000 | Decrease in allowance | 5,450 |
| | | Income statement | 7,550 |
| | 13,000 | | 13,000 |

**102 C**

| | $ |
|---|---|
| Write off of irrecoverable debts | 146,000 |
| Increase in allowance | 135,000 |
| Total charge to income statement | 281,000 |

**103 C**

| | |
|---|---|
| Rent per month to 30 September 2009 | $5,000 |
| Rent per month from 1 October 2009 | $6,000 |
| | $ |
| Rent 1 Aug – 30 Sep 2009: 2 months × $5,000 | 10,000 |
| Rent 1 Oct 2009 – 31 July 2010: 10 months × $6,000 | 60,000 |
| Total rent expense for the year | 70,000 |

**104 B**

| | |
|---|---|
| Rent per month to 30 June 2010 | $700 |
| Rent per month from 1 July 2010 | $1,000 |
| | $ |
| Rent 1 Dec 2009 – 30 Jun 2010: 7 months × $700 | 4,900 |
| Rent 1 July – 30 Nov 2010: 5 months × $1,000 | 5,000 |
| Total rent received for the year to 30 November | 9,900 |

At 30 November 2010 there is rent received in advance for December 2010. Therefore there is an accrual (current liability) at that date of $1,000.

**105 D**

| | $ |
|---|---|
| Closing liability for heating oil | 3,200 |
| Payments to suppliers of heating oil | 34,600 |
| | 37,800 |
| Opening liability for heating oil | (3,600) |
| Therefore purchase of heating oil in the year | 34,200 |

| | $ |
|---|---|
| Opening inventory of heating oil | 8,200 |
| Purchases (from table above) | 34,200 |
| | 42,400 |
| Closing inventory of heating oil | (9,300) |
| Therefore heating oil expense for the year | 33,100 |

**106 B**

**Receivables**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 180,000 | | |
| Credit sales | 190,000 | Cash from credit customers | 228,000 |
| Cash refunds to credit customers | 3,300 | Sales returns | 8,000 |
| | | Discount allowed | 4,200 |
| | | Bad debts written off | 1,500 |
| | | Contras against payables | 2,400 |
| | | Balance c/f | **129,200** |
| | 373,300 | | 373,300 |

**107 D**

| | $ | $ |
|---|---|---|
| Irrecoverable debts written off | | 38,000 |
| Allowance at end of year 5% × $(400,000 – 38,000) | 36,200 | |
| Allowance at beginning of year | 50,000 | |
| Reduction in allowance for irrecoverable debts | | (13,800) |
| Total charge for the year | | 24,200 |

**108 C**

| **Rental income** | $ |
|---|---|
| 1 Dec 2008 – 31 March 2009: 4 months × $2,500 | 10,000 |
| 1 April – 30 Nov 2009: 8 months × $3,000 | 24,000 |
| Total rental income for year to 30 November 2009 | 34,000 |

The rental income is a credit entry in the rental income account (since balances in income accounts such as sales are credit balances).

At 30 November 2009, there is prepaid rental income for December 2009. The rental income per month is $3,000. Therefore there is an accrual of $3,000 at 30 November 2009 for rental received in advance (= current liability).

This could be shown in T account form as follows.

**Rental income**

| | $ | | $ |
|---|---|---|---|
| | | Income received in advance at 30th Nov 2008 (b/f) 1/3 × 7,500 | 2,500 |
| | | Cash received | 7,500 |
| | | Cash received | 9,000 |
| | | Cash received | 9,000 |
| Income statement (β) | 34,000 | Cash received | 9,000 |
| Income received in advance at 30th Nov 2009 (c/f) 1/3 × $9,000 | 3,000 | | |
| | 37,000 | | 37,000 |

**109 B**

| | $ |
|---|---|
| Bad debts write off | (18,000) |
| Decrease in allowance for irrecoverable debts | 17,000 |
| Net charge to profit and loss (= expense, therefore debit) | 1,000 |

**110 D**

| | |
|---|---|
| Rent per month to 30 June 2009 | $7,000 |
| Rent per month from 1July 2009 | $8,000 |
| | $ |
| Rent 1 May – 30 Jun 2009: 2 months × $7,000 | 14,000 |
| Rent 1 July 2009 –30 April 2010: 10 months × $8,000 | 80,000 |
| Total rent expense for the year | 94,000 |

At 30 April 2010, there is a prepayment of rent for May and June 2010. This prepayment (current asset) = 2 months × $8,000 per month = $16,000.

**111 D**

| **Statement of financial position** | $ |
|---|---|
| Year end receivables $(655,900 – 12,500) | 643,400 |
| Allowance for receivables | (34,000) |
| Net trade receivables | 609,400 |

| **Income statement (profit and loss)** | |
|---|---|
| Bad debts written off | 12,500 |
| Increase in allowance ($34,000 – $27,000) | 7,000 |
| Total expense | 19,500 |

**112 C** Drawings are recorded throughout the year as they occur. The other items are all accounting items recorded at the end of the financial year, and so they are 'year-end adjustments'.

***Tutorial note*:** Opening inventory remains as a debit balance on the inventory account until the year end, when it is transferred to the income statement to become part of cost of sales.

**113 C** The journal to write off an irrecoverable debt remains the same regardless of whether the debt has previously been allowed for as an irrecoverable item.

When the allowance for irrecoverable debts is re-calculated, the bankrupt customer's debt will no longer be included.

Irrecoverable debts (bad debts) is an expense item; therefore Debit Irrecoverable debts and Credit Receivables.

**114 A**

- Although an aged receivables analysis may help in the process of revising credit limits for existing customers, this is not its main purpose.
- All receivables are included, categorised according to when they fall due.

**115 A**

| | $ | |
|---|---|---|
| Total receivables before adjustments | 27,800 | |
| Irrecoverable debts ($460 + $60) | 520 | |
| Revised total receivables | 27,280 | |
| | | |
| Allowance c/f: $27,280 × 5% = | | $1,364 |
| Allowance b/f: $1,364 × 100/110 = | | $1,240 |

| Irrecoverable debts expense | $ |
|---|---|
| Write off of irrecoverable debts | 520 |
| Increase in allowance | 124 |
| Charge for the year | 644 |

An expense is a debit balance in the irrecoverable debts expense account; therefore the $644 is a debit balance.

**116 C**

| **Rental charges** | $ |
|---|---|
| Rental costs for 2009 prepaid in 2008 | 12,800 |
| Cash payments in 2009 | 78,000 |
| | 90,800 |
| Prepayment for 2010 (2/3 × $19,500) | (13,000) |
| Total rental charges for year to 31 December 2009 | 77,800 |

| **Telephone charges** | $ |
|---|---|
| Cash payments in 2009 | 6,250 |
| Less: payments relating to accrued charges in 2008 | (450) |
| | 5,800 |
| Accrued charges at 31 December 2009 | 589 |
| Total telephone charges for year to 31 December 2009 | 6,389 |

The answer can also be presented in T account form, as follows.

**Rent**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 12,800 | | |
| Cash paid | 78,000 | Income statement (β) | 77,800 |
| | | Balance c/f ($19,500 × 2/3) | 13,000 |
| | 90,800 | | 90,800 |

**Telephone**

| | $ | | $ |
|---|---|---|---|
| | | Balance b/f | 450 |
| Cash paid | 6,250 | Income statement (β) | 6,389 |
| Balance c/f | 589 | | |
| | 6,839 | | 6,839 |

**117 B**

**Receivables ledger control account**

| | $ | | $ |
|---|---|---|---|
| Opening balance | 138,400 | Cash from credit customers | 78,420 |
| Credit sales | 80,660 | Discounts allowed | 1,950 |
| Dishonoured cheques (Bank) | 850 | Bad debts written off | 3,000 |
| | | Contras against payables | 1,000 |
| | | Closing balance | **135,540** |
| | 219,910 | | 219,910 |

**118 C**

| | |
|---|---|
| Insurance costs to 30 June 2010 | $ |
| Insurance prepaid | 8,200 |
| Premium for 6 months 1 Oct 2009 – 30 Jun 2010 (9/12 × $38,000) | 28,500 |
| Insurance cost for year to 30 June 2010 | 36,700 |

At30 June 2010, insurance has been prepaid for the 3-month period 1 July 2010 – 30 September 2010. This prepayment is (3/12 × $38,000) = $9,500.

Note. The 'trick' in his question is that the premium paid covers the period 1 October to 30 September, even though it was paid in January.

**119 B**

| | $ | $ |
|---|---|---|
| Irrecoverable debts written off | | 37,000 |
| Allowance at end of year 5% × $(517,000 – 37,000) | 24,000 | |
| Allowance at beginning of year | 39,000 | |
| Reduction in allowance for irrecoverable debts | | (15,000) |
| Total charge for the year | | 22,000 |

**120 D**

| | |
|---|---|
| Rent per month to 30 June 2009 | $2,000 |
| Rent per month from 1 July 2009 | $2,500 |
| | $ |
| Rent 1 Feb– 30 Jun 2009: 5 months × $2,000 | 10,000 |
| Rent 1 July 2009 – 31 Jan 2010: 7 months × $2,500 | 17,500 |
| Total rent received for the year to 31 January 2010 | 27,500 |

At 31 January 2010 there is rent received in advance for February and March 2010. Therefore there is an accrual (current liability) at that date of (2 × $2,500 =) $5,000.

**121 D**

**Receivables ledger control account**

| | | | |
|---|---|---|---|
| | $ | | $ |
| Opening receivables | 148,200 | Cash from credit customers | 819,300 |
| Credit sales | **880,600** | Discounts allowed | 16,200 |
| (balancing figure) | | Bad debts written off | 1,500 |
| | | Sales returns | 38,700 |
| | | Closing receivables | 153,100 |
| | 1,028,800 | | 1,028,800 |

Note. In this question, the incorrect figure is not the closing balance of receivables, but the figure for credit sales.

**122 B**

| | | |
|---|---|---|
| | $ | $ |
| Irrecoverable debts written off | | 28,000 |
| Allowance at end of year 5% × $(458,000 – 28,000) | 21,500 | |
| Allowance at beginning of year | 18,000 | |
| Increase in allowance for irrecoverable debts | | 3,500 |
| Total charge for the year | | 31,500 |

**123 A**

**Payables ledger control account**

| | | | |
|---|---|---|---|
| | $ | | $ |
| Cash paid to suppliers | 988,400 | Balance b/f | 384,600 |
| Discounts received | 12,600 | Purchases | 963,200 |
| Contras: receivables ledger | 4,200 | | |
| Purchases returns | 17,400 | | |
| Balance c/f (balancing figure) | **325,200** | | |
| | 1,347,800 | | 1,347,800 |

**124 C**

**Receivables ledger control account**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 318,650 | | |
| Credit sales | 161,770 | Discounts allowed to credit customers | 1,240 |
| Interest charged on overdue accounts | 280 | Cash from credit customers | 181,140 |
| | | Bad debts written off | 1,390 |
| | | Sales returns | 3,990 |
| | | Balance c/f | 292,940 |
| | 480,700 | | 480,700 |

- Cash sales should not feature in the receivables ledger control account.
- Discounts allowed to credit customers reduce the amount owed and are therefore credited to the receivables ledger control account.
- Interest charged on overdue accounts increases the amount owed and is therefore debited to the account.

**125 A**

**Receivables ledger control account**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 614,000 | | |
| Credit sales | 301,000 | Discounts allowed | 3,400 |
| Interest charged on overdue accounts | 1,600 | Cash from credit customers | 311,000 |
| | | Bad debts written off | 32,000 |
| | | Contras | 8,650 |
| | | Balance c/f (= Answer) | 561,550 |
| | 916,600 | | 916,600 |

**126 A** Anything that reduces the amounts owed by individual customers is credited to the receivables account. Cash refunds are debited to the receivables account (and credited to cash). Changes in the allowance for recoverable debts are not recorded in the receivables account.

## Provisions and contingencies

**127 A** The accounting treatment of contingencies can be summarised as follows:

| | **Contingent liability** | **Contingent asset** |
|---|---|---|
| **Virtually certain** | Record provision | Record asset |
| **Probable** | Record provision | Disclose |
| **Possible** | Disclose | Do not disclose |
| **Remote** | Do not disclose | Do not disclose |

**128 C** ***Tutorial note*:** When considering whether a provision should be made, always consider the three questions:

- Is there an obligation?
- Is payment probable?
- Can the amount be estimated reliably?

If the answer to all three questions is yes, a provision should be made.

| | **Obligation?** | **Probable payment?** | **Reliable estimation?** |
|---|---|---|---|
| Warranty | Yes | Yes | Yes (past experience) |
| Action pending | Yes | No | N/R |
| Closure of division | No – as no announcement has been made there is a chance that the closure will not go ahead | Yes (assuming goes ahead) | Yes (assumed) |

- A provision should therefore be made for the warranty claims.
- No provision should be made for the action pending. The action has a greater than remote chance of succeeding and therefore should be disclosed.
- As there is no obligation regarding the closure of the division, no disclosure is required.

**129 B** A constructive obligation arises where a business has done or said something which creates an expectation in other parties. In this case, the announcement means that employees and the general public believe that the division will indeed close.

A legal obligation derives from a contract or statute law (legislation).

**130 D** ***Exam tip*:** It is vital that you remember the three conditions required in order to make a provision. All conditions must be met.

 

**131 C**

- Only the movement in the provision is booked year on year.
- The provision has reduced by $2,200, hence a debit to the provision account.
- The corresponding credit is to the income statement (profit).

**132 D**

| | | $ |
|---|---|---|
| Expected value of major repairs | 3% × $150,000 | 4,500 |
| Expected value of minor repairs | 10% × $90,000 | 9,000 |
| | | 13,500 |

**133 B** (1) should be treated as a contingent liability. Success in the case is not probable and therefore a provision can not be booked.

(2) should be treated as an asset. Success in the case is virtually certain. This indicates that the asset is no longer contingent.

**134 B** A provision cannot be made for future operating losses. A provision can be made for future reorganisation/closure costs, but only if these costs are certain to happen – e.g. if employees have been informed and the closure announced to the press.

## Capital structure and finance costs

**135 B** The amount incorrectly credited to the share capital account must be reversed out (by debiting) and then credited to share premium.

Premium: 50c × 50,000 shares = $25,000

***Tutorial note***: A good approach to take to the correction of errors is a 'did', 'should' and 'to correct' approach:

| **Did** | | **Should** | | **To correct** | |
|---|---|---|---|---|---|
| Dr Cash | 37,500 | Dr Cash | 37,500 | Dr Share capital | 25,000 |
| Cr Share capita | l37,500 | Cr Share capital | 12,500 | Cr Share premium | 25,000 |
| | | Cr Share premium | 25,000 | | |

**136 D**

| **8% loan notes** | $ |
|---|---|
| Interest to 30th September 2009 ($1m × 8% × 3/12) | 20,000 |
| Interest 1st Oct 2009 – 30th June 2010 ($750,000 × 8% × 9/12) | 45,000 |
| **7% loan notes** | |
| Interest 1st April 2010 – 30th June 2010 ($500,000 × 7% × 3/12) | 8,750 |
| | 73,750 |

**137 B**

| | | |
|---|---|---|
| Cash received: 1,000,000 × 80c | Dr Cash | $800,000 |
| Nominal value of shares: 1,000,000 × 50c | Cr Share capital | $500,000 |
| Premium on shares: 1,000,000 × 30c | Cr Share premium | $300,000 |

**138 A**

| | $ |
|---|---|
| Final equity dividend for year ended 31st August 2009 | 26,000 |
| Interim equity dividend for year ended 31st August 2010 | 17,000 |
| Total dividend in SOCIE | 43,000 |

***Tutorial note*:** Equity dividends are not accounted for until officially approved by the shareholders. In practice this rarely occurs before the year end and therefore it is very rare to find a liability for equity dividends in the statement of financial position. Proposed dividends are disclosed in a note to the financial statements. Actual equity dividends paid are shown in the SOCIE.

**139 C** Preference shares do not normally entitle the shareholder to a vote.

Equity shares do generally carry this benefit.

**140 B** The authorised share capital is the maximum which a company may issue. In some countries (e.g. the UK) the legal requirement that companies should have an authorised share capital has been abolished.

The issued share capital is the nominal value of the shares in issue – $30,000 in this question.

The called-up share capital is the amount that the shareholders have been asked to pay – $15,000 in this question.

The paid-up share capital is the amount that the shareholders have actually paid – $9,000 in this question.

**141 A**

**142 D**

| | **Share capital** | **Share premium** |
|---|---|---|
| | $ | $ |
| At 1 July 2009 | 500,000 | 400,000 |
| 1 for 4 bonus issue | 125,000 | (125,000) |
| | 625,000 | 275,000 |
| 1 for 10 rights issue (125,000 shares, premium $1 per share) | 62,500 | 125,000 |
| At 30 June 2010 | 687,500 | 400,000 |

**143 A** A bonus issue does not change the total of share capital and reserves; therefore the gearing ratio does not change. A rights issue might increase the number of shareholders in a company; however of all shareholders take up the new shares offered to them, the total number of shareholders will not change.

**144 B**

**145 D** Profit after tax is shown in the SOCIE, not profit before tax.

**146 A**
- A loss on the sale of investments is shown in the income statement.
- Dividends proposed after the year end should not be accrued in the financial statements, although disclosure should be made in a note to the financial statements.

**147 C** ***Tutorial note*:** Where no share premium is available to fund a bonus issue of shares, it is debited to an alternative reserve, normally retained earnings.

**148 B**

| | **Share capital (25c NV)** | **Share premium** |
|---|---|---|
| | $ | $ |
| At 30 June 2009 | 125,000 | 100,000 |
| *Rights issue* | | |
| New issue: 500,000/2 = 250,000 shares at $1 each: 25c nominal value and 75c premium | 62,500 | 187,500 |
| *Bonus issue* | | |
| (500,000 + 250,000) / 5 = 150,000 shares at 25c nominal value | 37,500 | (37,500) |
| Balance at 30 June 2010 | 225,000 | 250,000 |

**149 B**

| | **Share capital (Share of 50c)** | **Share premium** |
|---|---|---|
| | $ | $ |
| At 31st December 2009 | 50,000 | 180,000 |
| *Bonus issue* | | |
| New shares: | | |
| 100,000/2 = 50,000 at 50c nominal value | 25,000 | (25,000) |
| *Cash issue* | | |
| 60,000 at 50c/30c | 30,000 | 18,000 |
| Balance at 31st December 2010 | 105,000 | 173,000 |

**150 B** The statement of changes in equity reconciles the opening balances of share capital, share premium, retained profits, revaluation reserve and any other reserves to the closing balances.

It does not include profit on the disposal of properties as an individual item, although this is included by virtue of the fact that it is part of the profit for the year as calculated in the income statement.

It does include preference dividends relating to the year and ordinary dividends declared during the year. It does not, however, include ordinary dividends proposed but not yet declared.

## Trial balance, correcting errors and suspense accounts

**151 D**

- Carriage inwards, drawings, opening inventory, carriage outwards and accrued income are all debits.
- Rental income, accruals and purchase returns are all credits.

**152 B**

**153 D**

**Cash**

| | $ | | $ |
|---|---|---|---|
| | | Overdraft b/f | 156 |
| Receipts from customers | 12,890 | Payments to suppliers | 13,400 |
| Rental income | 5,000 | Dishonoured cheque | 25 |
| Bankings from petty cash | 1,600 | Bank charges | 100 |
| | | Balance c/f | 5,809 |
| | 19,490 | | 19,490 |

**154 A**

- The correct journal to write off an irrecoverable balance is:

  Dr Bad and doubtful debts account

  Cr Receivables control account
- The correct journal to record an issue of shares at par is:

  Dr Cash

  Cr Share capital

  Where shares are issued at a premium, the premium should be credited to the share premium account.
- If the motor vehicles account has been undercast, the balance (a debit) is $1,000 too little. The correction journal is therefore to:

  Dr Motor vehicles account 1,000

  Cr Suspense 1,000

***Tutorial note*:** Where the balance on an account has been extracted incorrectly, the correct treatment is to debit or credit it in order to achieve the correct balance, and send the other side of the entry to the suspense account.

 

**155 C**

| | $ |
|---|---|
| Draft net profit | 83,600 |
| Correction of error in posting of motor vehicle | |
| Dr Motor vehicles cost | |
| Cr Motor vehicles expense | 18,000 |
| Additional depreciation on motor vehicle | |
| $18,000 × 25% = $4,500 | |
| Dr Depreciation expense | (4,500) |
| Cr Accumulated depreciation | |
| Revised net profit | 97,100 |

***Tutorial note*:** When adjusting profit for the effect of correction journals, remember that a debit to an income statement account reduces profit and a credit to an income statement account increases profit. For this purpose, the suspense account is a balance sheet account.

**156 B** The suspense account arises (and so needs correcting) only when an initial entry does not include an equal debit and credit.

(1) The debit has been posted to the wrong account. As there is an equal debit and credit in the initial entry, a suspense account entry does not arise.

(2) A double debit has occurred. As double entry has broken down, a suspense account entry will arise to create a balanced debit and credit.

(3) Where a balance is omitted from the trial balance, a suspense account arises to ensure that total debits equal total credits within the trial balance.

(4) The initial journal includes an equal debit and credit and so the suspense account is not affected.

***Tutorial note*:** If a question does not mention one side of the initial entry – as is the case here for error (1), always assume that the entry has been made correctly.

**157 C**

- Journal 1 has debited the wages and purchases accounts and credited the buildings account. The correct journal to capitalise costs associated with the construction of the extension is to debit the buildings account and credit the wages and purchases accounts.
- Directors do not hold personal accounts with a company. The correct entry to record the awarding of a bonus is:

  Dr Directors' remuneration expense

  Cr Accruals

**158 D** As a result of the imbalance, the suspense account shows a credit of $7,182.

- To correct A, the insurance expense account should be debited onto the trial balance and the credit sent to suspense; this will increase the credit on the suspense account.

- In B the debit has been sent to the wrong account. As there is no breakdown in double entry, this error will not explain any suspense account balance.
- To correct C, $7,182 must be debited to cash and credited to sales. This will therefore not explain the imbalance on the trial balance.
- In D, returns outwards should be a credit balance. To correct its inclusion as a debit balance, double the amount ($7,182) should be credited to the returns outwards account. The corresponding debit will clear the suspense account.

**159 B** The suspense account will show a credit balance of $8,131 as a result of the imbalance.

| **Item** | **Correction** | **Impact on suspense account balance** |
|---|---|---|
| A | The cash balance should be debited into the trial balance and the credit entry sent to suspense. | Increase |
| B | A double debit has occurred. The rent account should be credited with twice the amount, i.e. $8,000 and the balance debited to suspense. | Decrease |
| C | The entry must be made by debiting cash and crediting sales. | No impact |
| D | The debit entry has been made to the wrong account. The correction required involves crediting the amount out of the plant asset account and debiting it to the plant repairs account. | No impact |

**160 B**

| **Did** | | **Should** | | **To correct** | |
|---|---|---|---|---|---|
| Cr Discounts received | $3,840 | Dr Discounts allowed | $3,840 | Dr Discounts allowed | $3,840 |
| Cr Receivables | $3,840 | Cr Receivables | $3,840 | Dr Discounts received | $3,840 |
| | | | | Cr Suspense | $7,680 |
| And | | | | | |
| Dr Payables | $2,960 | Dr Payables | $2,960 | Dr Suspense | $5,920 |
| Dr Discounts allowed | $2,960 | Cr Discounts received | $2,960 | Cr Discounts allowed | $2,960 |
| | | | | Cr Discounts received | $2,960 |
| Net effect: | | | | Dr Discounts allowed | $880 |
| | | | | Dr Discounts received | $880 |
| | | | | Cr Suspense | $1,760 |

***Tutorial note*:** Try this 'did', 'should' and 'to correct' approach. It should help you to work logically through what has gone wrong.

If in any instance the 'did' does not include an equal debit and credit, remember that a suspense account entry will make up the imbalance. Therefore the correction journal will involve eliminating this suspense account entry.

**161 D** An entry to the suspense account is required when the initial accounting entry did not include and equal debit and credit. The suspense account is also affected when a balance is omitted from the trial balance or incorrectly extracted from the ledger account.

Error

(1) The credit entry is $3,000 less than the debit entry.

(2) Both the entries to the cash and repairs account have been credited. No debit entry has been made.

(3) Balance omitted from the trial balance.

(4) The debit entry is $87,400 whereas the credit entry is $78,400.

**162 A**

**Suspense account**

| | $ | | $ |
|---|---|---|---|
| | | Balance per trial balance | 3,460 |
| (1) Share capital | 3,000 | (2) Correction of double credit (2 × $2,800) | 5,600 |
| (4) Correction of posting error | 9,000 | (3) Petty cash balance | 500 |
| | | Balance c/f | 2,440 |
| | 12,000 | | 12,000 |
| Balance b/f | 2,440 | | |

**163 C** The imbalance on the trial balance results in a debit balance of $33,840 on the suspense account.

| | | | |
|---|---|---|---|
| (1) | To correct the one-sided entry | Dr Rent payable | $6,160 |
| | | Cr Suspense | $6,160 |
| (2) | To list the balance correctly | Dr Motor expenses | $55,360 |
| | | Cr Suspense | $55,360 |
| (3) | To correct the error in posting | Dr Cash | $6,160 |
| | | Cr Motor vehicles asset | $6,160 |
| (4) | To include the balance | Dr Suspense | $21,520 |
| | | Cr Rent receivable | $21,520 |

Item 4 will increase the debit balance on the suspense account to $55,360; this is then cancelled out by item 2.

**164 C** The suspense account arises (and so needs correcting) only when an initial entry does not include an equal debit and credit.

(1) A double credit has arisen in the initial entry.

(2) Initial entry includes an equal debit and credit therefore no suspense account arises.

(3) The credit part of the initial entry has been posted to the wrong account. Double entry has, however, been upheld.

(4) In this case an entry has been completely omitted. This will not affect the suspense account.

(5) A double credit has arisen in the initial entry.

**165 A** Corrected profit figure = \$278,990 + under-recorded sales \$3,400 = \$282,390. The other errors do not affect the reported profit.

**166 D** An extraction error arises where the balance on an account has been incorrectly transferred to the trial balance.

**167 B** An error of commission occurs where an entry has been made to the wrong account but within the right category of account (here non-current assets).

***Tutorial note*:** This differs from an error of principle which occurs where an entry has been made to the wrong category of account. This is the case in error A within this question: and expense has been recorded as a non-current asset addition

**168 C**

| **Did** | **Should** | **To correct** |
|---|---|---|
| Dr Cash \$4,300 | Dr Cash \$4,300 | Dr Suspense \$4,300 |
| | Cr Sales \$4,300 | Cr Sales \$4,300 |
| And | | |
| Dr Purchase returns \$189 | Dr PLCA \$189 | Dr Suspense \$378 |
| Dr PLCA \$189 | Cr Purchase returns \$189 | Cr Purchase returns \$378 |
| | | |
| Overall correction journal | | Dr Suspense \$4,678 |
| | | Cr Sales \$4,300 |
| | | Cr Purchase returns \$378 |

**169 A**

- As a result of the error, both receivables and payables are overstated by 2 × \$120 = \$240.
- As assets and liabilities are overstated by the same amount, there is no impact on net assets.
- Sales and purchases are unaffected and therefore so is profit.

**170 D** Correction journals:

(1) Dr Drawings $188

Cr Cost of sales $188

(2) The account in the sales ledger should be credited by 2 × $270 = $540. As control accounts are maintained, this is not part of the double-entry system.

(3) The depreciation amount should have been credited to the provision for depreciation account. Therefore:

| | |
|---|---|
| Dr Suspense (2 × $2,180) | $4,360 |
| Cr Provision for depreciation | $4,360 |

The balance on the suspense account is therefore $4,360 – $3,690 = $670 Dr.

**171 D** To correct the error in posting the rent received, there should be a debt of $18,000 to Rent received account and a credit of $18,000 to Suspense account. The entry for the bonus issue of shares (shares of 50c each#) should be for $200,000, not $400,000.

**172 C** The error in recording discounts allowed involves making two credit entries; therefore a suspense account entry has been needed to make the trial balance debit and credit totals equal.

| | |
|---|---|
| Where we are: | Discounts allowed: $0 |
| | Discounts received: Credit: $13,000 |
| Where we want to be: | Discounts allowed: Debit: $13,000 |
| | Discounts received: $0 |

To correct:

Debit: Discounts allowed: $13,000

Debit: Discounts received: $13,000

So Credit: Suspense account $26,000.

**173 C** To make the debit and credit totals equal, we need a debit balance in Suspense account of $5,450. To clear this Suspense account balance of $5,450, we need a credit to Suspense account of $10,000 and a debit to Suspense account of $4,550 (making a net credit entry of $5,450).

A credit entry of $10,000 in Suspense account requires a debit entry of $10,000 in Cash. If we need to make a correction by debiting Cash with $10,000, this means that the debit side of the cash book has been undercast by $10,000.

A debit entry of $4,550 in Suspense account requires a credit of $4,550 in Rent expense account. If we need to make a correction by crediting Rent expenses with $4,550, this means that the (debit) balance on the account is $4,550 too high.

**174 B** In Item 1 incorrect amounts are debited and credited, but total debits and credits are the same: correcting the error does not require a suspense account. The error in Item 2 is an error of omission: this is corrected by recording the transaction, and does not require a suspense account.

**175 D**

| | $ |
|---|---|
| Draft profit | 630,000 |
| Add back: Incorrect depreciation charge | 480 |
| Deduct: Correct depreciation charge (10% × $48,000) | (4,800) |
| | 625,680 |
| Less: Bank charges | (440) |
| Adjusted profit | 625,240 |

**176 C**

| | $ |
|---|---|
| Draft profit | 76,800 |
| Add back: Capital expenditure incorrectly treated as an expense | 32,000 |
| | 108,800 |
| Deduct: Depreciation charge (20% × $32,000) | (6,400) |
| Adjusted profit | 102,400 |

## Control accounts and bank reconciliations

**177 B**

| | $ |
|---|---|
| Overdraft per bank statement | (39,800) |
| Add: Outstanding lodgements | 64,100 |
| Less: Unpresented cheques | (44,200) |
| Overdraft per cash book | (19,900) |

**178 A**

- Journal entries are used to update the cash book with timing differences. These do not account for the full difference between the cash book and the bank statement – some is explained by uncleared lodgements and unpresented cheques.
- Bank charges not yet recorded are entered in the cash book. They do not form a reconciling item between the revised cash book balance and bank statement balance.

**179 B**

- Amendments are made to the cash book for **unrecorded differences,** i.e. items that appear on the bank statement but have not yet been entered in the cash book. These include bank charges and the dishonoured cheque.
- Amendments are made within the bank reconciliation for **timing differences**, i.e. unpresented cheques and uncleared lodgements.
- Errors may result in an amendment to the cash book or the bank statement balance. In this case the error has been made by the bank and so the correction appears in the bank reconciliation statement.

**180 C**

| | Beta: supplier statement | Alpha: payables ledger account |
|---|---|---|
| | $ | $ |
| Balance shown | 8,950 | 4,140 |
| (1) Cash paid to Beta | (4,080) | |
| (2) Cash discount given | | 40 |
| (3) Goods returned | (380) | |
| Revised balance | 4,490 | 4,180 |

**181 B** The error made by the bank and appears in the reconciliation statement but does not require an entry on the cash book, because the mistake is the bank's.

**182 C**

**183 D** If Eddie has treated an invoice as a credit note, he has debited Max's account with $100. He should have credited it by the same amount. Therefore the overall credit balance is $200 too low.

A, B and C would result in the statement balance being $200 lower than the ledger account balance.

**184 C**

| | $ | |
|---|---|---|
| Cash book balance before amendments (β) | (8,160) | (credit) |
| (1) Direct debit | (2,890) | |
| (4) Error | (540) | |
| Revised cash book balance | (11,590) | |
| Uncleared lodgements | (3,780) | |
| Unpresented cheques | 1,700 | |
| Bank statement balance | (13,670) | |

**185 B** The listing of a debit balance as a credit has resulted in the list of balances being 2 × $2,350 too high.

A and D would result in a reduction to the balance in the payables ledger control account by $4,700.

In C, as the invoice has not been recorded in the day book, it will not have been transferred to either the general or payables ledger.

**186 B**

| | | Receivables ledger control account | Receivables ledger balances |
|---|---|---|---|
| | | $ | $ |
| Original balances | | 231,780 | 227,900 |
| (1) | Omitted invoice | 430 | 430 |
| (2) | Overcasting of sales day book | (2,100) | – |
| (3) | Credit note | – | (400) |
| | | 229,810 | 227,930 |

Difference: $229,810 – $227,930 = $1,880

***Tutorial note*:** Remember that, if a day book has been miscast, this adding up error will only affect the control account.

**187 A**

- The contra has not been recorded at all and so needs accounting for in both the control account and the individual customer account.
- Any casting error will only affect the control account, which contains totals (whereas the individual accounts contain individual amounts).
- Where an amount has been entered wrongly in the book of prime entry, it will be transferred to the individual account as the wrong amount and will also result in an incorrect total being posted to the control account.

**188 C**

| | $ |
|---|---|
| Overdraft per bank statement | (68,100) |
| Add: Deposits not credited | 141,200 |
| | 73,100 |
| Balance per cash book | 31,300 |
| Therefore Outstanding cheques | 41,800 |

The balance in the cash book is a positive balance, not an overdraft balance.

**189 C**

| Supplier statement | | Payables ledger | |
|---|---|---|---|
| | $ | | $ |
| Draft | 4,500 | Draft | 4,230 |
| Settlement discount not recorded | (100) | Settlement discount recorded twice | 100 |
| Cheque | (40) | | |
| | 4,360 | | 4,330 |

**190 D** If Beta sends a credit note to Alpha but Alpha has not yet recorded it, Beta's accounting records will have a lower balance for the amount due from Alpha.

**191 D**

| | $ |
|---|---|
| Alta statement: amount owed by Ordan | 3,980 |
| Deduct: Cheque sent by Ordan | (270) |
| Deduct: Returns by Ordan | (180) |
| Deduct: Contra entry | (3,200) |
| Adjusted amount owed, according to Alta's records | 330 |
| Balance in Ordan's payables ledger account for Alta | 230 |
| Unexplained difference | 100 |

**192 A**

| | $ |
|---|---|
| Bank statement balance | (38,600) |
| Add: Lodgements recorded in cash book | 14,700 |
| Deduct: Unpresented cheques recorded in cash book as payments | (27,800) |
| | (51,700) |
| Still to be entered in the cash book: bank charges | 200 |
| Error in cash book: Credit of $4,200 recorded as receipt (debit) | 8,400 |
| Cash book balance before adjustments/corrections | (43,100) |

**193 B**

| | $ |
|---|---|
| Bank statement balance | (38,640) |
| Add: Lodgements recorded in cash book | 19,270 |
| Deduct: Unpresented cheques recorded in cash book as payments | (14,260) |
| Correct cash book balance | (33,630) |

# Preparing financial statements

**194 D**

| **Current assets** | $ | **Current liabilities** | $ |
|---|---|---|---|
| Receivables | 13,900 | Bank overdraft | 1,260 |
| Allowance for receivables | (970) | Payables | 16,050 |
| Inventory | 1,230 | Accrual for bills due | 2,200 |
| Petty cash | 220 | Loan due within 1 year | 25,000 |
| | 14,380 | | 44,510 |

***Note***: The 'allowance for receivables' is another term for 'allowance for irrecoverable debts'.

**195 D**

- Finance costs must be shown separately on the face of the statement of comprehensive income/income statement.
- Staff costs and depreciation and amortisation expense are generally shown in a note to the financial statements.
- Movements on share capital are shown in the statement of changes in equity.

**196 B**

**Current assets**

| | | $ |
|---|---|---|
| (1) | Loan due to company within 12 months of balance sheet date | 12,000 |
| | Interest due on loan at 31 December 2009 $12,000 × 2% | 240 |
| (2) | Prepaid insurance 8/12 × $9,000 | 6,000 |
| (3) | Rent due at 31 December 2009 (accrued income = asset) | 4,000 |
| | | 22,240 |

There are no current liability items in the question.

**197 B** Under-providing for tax in the previous year means that the tax charge in the current year will be higher.

**198 A**

| | $ |
|---|---|
| Tax charge on current year profits | 97,100 |
| Less: Over-provision in the previous year | (4,800) |
| Tax charge in the current year | 92,300 |
| Opening amount of tax payable | 21,300 |
| Tax charge in the current year (see above) | 92,300 |
| | 113,600 |
| Closing amount of tax payable | (25,400) |
| Tax actually paid in the year | 88,200 |

**199 B**

| | $ |
|---|---|
| Retained earnings b/f | 670,200 |
| Profit before tax for y/e 31 August 2010 | 179,450 |
| Tax charge (21,700 + 1,200) | (22,900) |
| Interim dividend | (10,000) |
| Retained earnings c/f | 816,750 |

**200 C**

- IAS 1 does not allow extraordinary items.
- Accounting policies should always be disclosed. Where they do not comply with accounting standards, an extra disclosure is also required.

**201 A** Dividends are shown in the statement of changes in equity rather than in the income statement/ statement of comprehensive income.

**202 A** An estimate of the future effect of the change in accounting policy is not necessary.

**203 A** Extraordinary items are not allowed either on the face of the income statement or in the notes to the accounts, according to IAS 1.

**204 D**
- A bonus issue does not involve cash and so will not raise funds.
- Extraordinary items are not permitted according to IAS 8.
- The statement of changes in equity shows realised amounts of profit (shown in the profit for the year figure) and also unrealised profits (such as revaluation gains).

**205 A** No disclosure of adjusting events is required. The accounts are, however, adjusted for these items.

***Tutorial note*:** Loan notes may be classified as current or non-current depending on the date of redemption.

**206 D**
- IAS 1 does not allow extraordinary items.
- Consistency is an ideal; however, changes in accounting policy are allowed where it will result in more reliable and relevant information.

**207 D** The bonus issue added $62,500 to share capital. The share premium of $50,000 would be reduced to $0, and the remaining $12,500 would be taken from the retained profits reserve**.**

| | $ |
|---|---|
| Retained earnings at 31 December 2008 | 453,299 |
| Retained profit for 2009 | 156,700 |
| Reduction in reserve due to bonus issue | (12,500) |
| Equity dividends paid | (75,000) |
| Retained earnings at 31 December 2009 | 522,499 |

**208 C** Item 1 leaves working capital unchanged, because trade receivables are reduced but cash is increased by $1,000. Item 2 increases current assets by $500 ($2,000 in inventory becomes $2,500 cash or receivables) and there is an increase in capital (profit) of $500. Item 3 reduces trade payables (and increases purchase returns) and the reduction in current liabilities increases working capital by $500.

**209 C** Land and purchased goodwill must not be depreciated. Other non-current assets such as investments are not depreciated. Goodwill is not re-valued; therefore statement 2 must be incorrect.

**210 D** If material, they are all non-adjusting events. A fall in the value of investments owned by an entity after the reporting period does not affect the position as at the end of the period. Events that have a future impact, such as changes in tax rates and a major re-structuring, do not reflect conditions during or at the end of the reporting period.

**211 D** The financial statements include the notes to the financial statements (IAS1).

**212 D**

**213 B**
- Events 2 and 4 provide evidence of conditions existing at the year end. These are therefore adjusting.
- The sale of inventory at an amount in excess of cost is not an adjusting event. The sale of inventory at an amount less than cost in the period after the end of the reporting period would, however, be treated as adjusting, because it provides evidence about the value of the inventory as at the end of the reporting period. This will result in the write-down of closing inventory.

**214 D**

**215 B** A fire after the end of the reporting period is not an adjusting event as it does not provide evidence of conditions existing at the end of the reporting period.

**216 A** IAS 37 does not allow provisions to be made for future operating losses.

**217 B** ***Exam tip*:** You should make up a list of adjusting and non-adjusting events and commit it to memory.

**218 C** As the legal action relates to an event during the financial year, its commencement in the post balance sheet period is treated as an adjusting event. Had the action related to an incident arising after the balance sheet date, it would not have been treated as adjusting.

**219 A**
- Redeemable preference shares are classified as a long-term liability.
- Amounts owed to suppliers are part of the normal trading cycle of an entity and so classified as current according to IAS 1.
- A provision may be classified as current or non-current. In this case the provision is for one-year warranties and so should be classified as current.

## Statements of cash flows

**220 D**

**221 B**

**222 D**

- Depreciation charges are a non-cash expense and as such should be added back to profit in the reconciliation to cash flow from operating activities.
- A decrease in inventories releases cash, and therefore should be added in the reconciliation.
- An increase in receivables ties up cash in working capital, and therefore should be deducted in the reconciliation.
- An increase in payables is correctly added in the reconciliation to reflect the fact that the cash balance will increase if not used to pay suppliers.

**223 B** Only items involving a transfer of cash will appear in the cash flow statement. A bonus issue of shares and a **proposed** dividend do not involve a cash transfer.

**224 D**

- Proceeds of the sale of premises are included under the heading 'cash flows from investing activities'.
- Tax paid is included under the heading 'cash flows from operating activities'.
- Bonus issues of shares are not disclosed in a statement of cash flows as they do not involve a transfer of cash.

**225 C**

- Despite the different methods, operating cash flows calculated using the direct or indirect method are exactly the same.
- Rights issues of shares involve a cash transfer and therefore do feature in statements of cash flows (within the financing section).
- A profit on the sale of a non-current asset does not appear in the statement of cash flows other than as an adjustment in the calculation of operational cash flows using the direct method.

**226 D**

| | $ | |
|---|---|---|
| Depreciation charges | 980,000 | Non-cash expense added back |
| Profit on sale of non-current assets | (40,000) | Non-cash income deducted |
| Increase in inventories | (130,000) | Decrease in cash as more cash used to buy inventory |
| Decrease in receivables | 100,000 | Increase in cash as more cash paid by customers |
| Increase in payables | 80,000 | Increase in cash as less paid to suppliers |
| | 990,000 | |

**227 D**

| Added back to net profit before tax | Deducted from net profit before tax |
|---|---|
| ■ Depreciation charge<br>■ Loss on sale of non-current assets<br>■ Decrease in current assets (inventory, receivables and prepayments)<br>■ Increase in current liabilities (payables and accruals) | ■ Profit on sale of non-current assets<br>■ Increase in current assets<br>■ Decrease in current liabilities |

**228 B**

**229** **$29,040**

| | $ |
|---|---|
| Cash receipts from credit customers | 145,700 |
| Cash sales | 13,780 |
| Cash paid to credit suppliers | (67,210) |
| Cash paid to employees | (45,000) |
| Cash expenses | (18,230) |
| Cash generated from operations | 29,040 |

***Workings***

(W1)

**Receivables**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 10,540 | | |
| Credit sales | 164,300 | Cash received (β) | 145,700 |
| | | Balance c/f | 29,140 |
| | 174,840 | | 174,840 |

(W2)

**Payables**

| | $ | | $ |
|---|---|---|---|
| | | Balance b/f | 9,380 |
| Cash paid (β) | 67,210 | Credit purchases | 81,290 |
| Balance c/f | 23,460 | | |
| | 90,670 | | 90,670 |

**230 A**

**Non-current assets (carrying value)**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 340,000 | | |
| Revaluation | 100,000 | Disposals (120,000 – 75,000) | 45,000 |
| Cash additions (β) | 67,000 | Depreciation charge | 23,000 |
| | | Balance c/f | 439,000 |
| | 507,000 | | 507,000 |

***Tutorial note***: You may be required to work with a carrying value T account rather than separate cost and accumulated depreciation accounts. If so, make sure that you credit the account with the **carrying value** of any assets disposed of.

**231 D** The statement of cash flows may be used to help to predict future cash flows (for example a share issue this year will feasibly result in a higher dividend in future years). However, it does not itself present forecast information.

**232 B**

| | $ |
|---|---|
| Cash paid to acquire non-current assets | (126,900) |
| Proceeds from sale of non-current assets | 34,500 |
| Net cash outflow from investing activities | (92,400) |

***Tutorial note***: Both depreciation and a loss on disposal are added back to profit when using the indirect method to calculate cash from operating activities. However they are not cash flows and so are not included elsewhere in the statement of cash flows.

**233 B**

| | **2009** | **2008** |
|---|---|---|
| Share capital | 175,000 | 120,000 |
| Share premium | 255,000 | 240,000 |
| | 430,000 | 360,000 |

| | $ |
|---|---|
| Cash inflow from share issue | 70,000 |
| Share issue costs | (9,000) |
| Net cash inflow from financing activities | 61,000 |

**234 C**

| | $ |
|---|---|
| Profit | 21,980 |
| Depreciation | 670 |
| Tax paid | (3,000) |
| Interest received | 80 |
| Bank loan | (10,000) |
| Increase in receivables | (500) |
| Decrease in inventories | 230 |
| Increase in payables | 430 |
| Increase in cash and bank balances | 9,890 |

**235 D**

| | $ |
|---|---|
| Profit | 156,700 |
| Depreciation | 12,700 |
| Decrease in inventory | 100 |
| Decrease in receivables | 550 |
| Decrease in prepayments | 420 |
| Increase in payables | 2,160 |
| | 172,630 |

# Incomplete records

**236 D**

| | $ |
|---|---|
| Opening inventory 1 July 2009 | 138,600 |
| Purchases for the year | 716,100 |
| | 854,700 |
| Inventory 30 June 2010 | 149,100 |
| Cost of sales | 705,600 |

Gross profit = 30% of sales; therefore cost of sales = 70% of sales.

Sales = Cost of sales × 100/70

Sales = $705,600 × 100/70 = $1,008,000

**237 A**

| | $ | $ | % |
|---|---|---|---|
| Sales (see working) | | 900,000 | 100 |
| Cost of sales: | | | |
| Opening inventory | 38,000 | | |
| Purchases | 637,000 | | |
| Closing inventory | (45,000) | | |
| | | (630,000) | 70 |
| Gross profit | | 270,000 | 30 |

***Working***

100/70 × \$630,000 = \$900,000

***Exam tip***: You must make sure that you are happy with the difference between margins and mark-ups.

**238 C** Opening net assets + Capital injections – Drawings + Profit = Closing net assets

\$210,000 + \$100,000 – \$48,000 + Profit = \$400,000

Profit = \$400,000 – \$210,000 – \$100,000 + \$48,000

Profit = \$138,000

**239 C**

**Total receivables**

| | \$ | | \$ |
|---|---|---|---|
| Balance b/f | 130,000 | | |
| Sales (= answer) | 744,960 | Cash received from customers | 686,400 |
| | | Discounts allowed | 1,400 |
| | | Bad debts | 4,160 |
| | | Contra | 2,000 |
| | | Balance c/f | 181,000 |
| | 874,960 | | 874,960 |

**240 D**

**Total payables**

| | \$ | | \$ |
|---|---|---|---|
| | | Balance b/f | 60,000 |
| Cash paid to suppliers | 302,800 | Purchases (= answer) | 331,760 |
| Discounts received | 2,960 | | |
| Contra | 2,000 | | |
| Balance c/f | 84,000 | | |
| | 391,760 | | 391,760 |

**241 C**

| | % | \$ | \$ |
|---|---|---|---|
| Sales | 150 | | 281,250 |
| Cost of sales: | | | |
| Opening inventory | | 183,600 | |
| Purchases | | 249,200 | |
| Closing inventory | | (204,600) | |
| Lost inventory (β) | | (40,700) | |
| | 100 | | (187,500) |
| Gross profit | 50 | | 93,750 |

**242 A**

**243 B**

| | % | $ | |
|---|---|---|---|
| Sales revenue | 100 | 190,000 | 100/60 × $114,000 |
| Cost of sales | 60 | 114,000 | |

| | $ |
|---|---|
| Sales revenue based on cost structure (above) | 190,000 |
| Recorded sales revenue | (181,600) |
| Stolen cash | 8,400 |

**244 B**

| | % | $ | $ | |
|---|---|---|---|---|
| Sales | 100 | | 1,587,500 | 100/60 × $952,500 |
| Cost of sales: | | | | |
| Opening inventory | | 386,200 | | |
| Purchases | | 989,000 | | |
| Closing inventory | | (422,700) | | |
| | 60 | | (952,500) | |
| Gross profit | 40 | | 635,000 | |

**245 C**

| | % | $ | $ |
|---|---|---|---|
| Sales | 100 | | 130,000 |
| Cost of sales: | | | |
| Opening inventory | | 49,800 | |
| Purchases | | 88,600 | |
| Closing inventory | | (32,000) | |
| Lost inventory (= answer) | | (15,400) | |
| | 70 | | (91,000) |
| Gross profit | 30 | | 39,000 |

**246 A** Opening capital + Injections – Drawings + Profit = Closing capital

234,000 + 100,000 – (71,000 + 12,000 + 16,000) + Profit = 306,000

Profit = 306,000 – 234,000 – 100,000 + 99,000

Profit = $71,000

***Tutorial note*:**

- Drawings of inventory are always accounted for at cost rather than selling price.
- A sole trader's income tax is a personal liability and therefore payment of it from business funds is classed as drawings.

 

**247 D** The approach here is to find the correct answer by 'trial and error'.

| | **1** | **2** | **3** | **4** |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Sales | 40,000 | 44,400 | 40,000 | 40,000 |
| Cost of sales: | | | | |
| Opening inventory | 12,000 | 12,000 | 12,000 | 12,000 |
| Purchases | 31,000 | 31,000 | 31,000 | 33,933 |
| Closing inventory | (13,400) | (13,400) | (13,400) | (13,400) |
| Drawings | (4,400) | | | |
| Stolen | | | (2,933) | |
| | 25,200 | 29,600 | 26,667 | 32,533 |
| Sales as a percentage of cost of sales | 158% | 150% | 150% | 123% |

Only items 2 and 3 are consistent with a profit margin of 150% on cost.

**248 D** Cost of sales = $780,000 × 100/120 = $650,000.

Opening inventory + Purchases – Closing inventory = Cost of sales

15,670 + Purchases – 13,400 = 650,000

Purchases = 647,730

**Payables ledger control account**

| | $ | | $ |
|---|---|---|---|
| | | Balance b/f | 45,670 |
| Cash paid to suppliers (= answer) | 653,500 | Purchases | 647,730 |
| Balance c/f | 39,900 | | |
| | 693,400 | | 693,400 |

**249** 25%

**Receivables ledger control account**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 28,600 | | |
| Sales (β) | 184,560 | Cash received from customers | 178,600 |
| | | Balance c/f | 34,560 |
| | 213,160 | | 213,160 |

| | $ |
|---|---|
| Opening inventory | 12,000 |
| Purchases | 140,920 |
| | 152,920 |
| Closing inventory | (14,500) |
| Cost of sales | 138,420 |

| | $ |
|---|---|
| Opening receivables | 28,600 |
| Sales (= balancing figure) | 184,560 |
| | 213,160 |
| Closing receivables | (34,560) |
| Cash received from customers | 178,600 |

Gross profit = Sales – Cost of sales = $184,560 - $138,420 = $46,140

Gross profit margin = $46,140/$184,560 = 25%

**250 D**

**Cash at till**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | nil | | |
| Cash sales (= answer) | 73,707 | Bankings | 43,200 |
| | | Wages (52 × $200) | 10,400 |
| | | Payment to supplier | 120 |
| | | Drawings (52 × $350) | 18,200 |
| | | Balance c/f | 1,787 |
| | 73,707 | | 73,707 |

**251 A**

**Cash at bank**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 2,780 | | |
| Cheques from customers | 12,433 | Payments to suppliers | 46,200 |
| Bankings (balancing figure) | 29,687 | | |
| Balance c/f | 1,300 | | |
| | 46,200 | | 46,200 |

**Cash at till**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 45 | | |
| Cash sales | 34,000 | Bankings (see above) | 29,687 |
| | | Sundry expenses | 350 |
| | | Cash stolen (= balancing figure) | 3,922 |
| | | Balance c/f | 86 |
| | 34,045 | | 34,045 |

**252 B**

**Cash in the till**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 1,890 | Bankings | 57,800 |
| Sales (balancing figure) | 72,560 | Wages | 12,800 |
| | | Drawings | 1,500 |
| | | Balance c/f | 2,350 |
| | 74,450 | | 74,450 |

| | % | $ | $ |
|---|---|---|---|
| Sales | 100 | | 72,560 |
| Opening inventory | | 3,600 | |
| Purchases (= balancing figure) | | 43,936 | |
| Closing inventory | | (4,000) | |
| Cost of sales | 60 | | (43,536) |
| Gross profit | 40 | | 29,024 |

**253 C**

| | % | $ |
|---|---|---|
| Sales | 120 | 16,800 |
| Cost of sales | 100 | (14,000) |
| Gross profit | 20 | 2,800 |

***Exam tip*:** A useful way to approach this type of question is through trial and error.

## Consolidated financial statements

**254 B**

| | |
|---|---|
| Cost | 240,000 |
| Net assets acquired: | |
| Share capital | 100,000 |
| Opening accumulated profits | 200,000 |
| Profits to 31 July (60,000 x 7/12) | 35,000 |
| | 335,000 |
| Group share 60% × 335,000 | 201,000 |
| Goodwill (240,000 – 210,000) | 39,000 |

**255 B**

| | $ |
|---|---|
| Cost | 850,000 |
| Net assets acquired: | |
| Share capital | 500,000 |
| Accumulated profits | 400,000 |
| Fair value adjustment | 100,000 |
| | 1,000,000 |
| Group share 80% × 1,000,000 | 800,000 |
| Goodwill on acquisition | 50,000 |

NB Goodwill is not amortised

**256 D**

| | $ |
|---|---|
| P | 800,000 |
| S (500,000 – 350,000) × 75% | 112,500 |
| | 912,500 |

**257 B**

**258 A**

| | $ |
|---|---|
| Share capital of Sense | 200 |
| Other reserves | 90 |
| Pre-acquisition retained profits 160 + [9/12 × (220 – 160)] | 205 |
| Fair value of net assets of Sense at date of acquisition | 495 |
| Fair value of net assets acquired by Pride (80%) | 396 |
| Cost of acquisition | 600 |
| Purchased goodwill | 204 |

**259 B**

| | $ | $ |
|---|---|---|
| Cost of 70% shares in Sack | | 215,000 |
| Fair value of net assets acquired by Pack (70% × 250,000) | | 175,000 |
| Goodwill on acquisition attributable to Pack | | 40,000 |
| Fair value of NCI at acquisition | 85,000 | |
| Fair value of net assets attributable to NCI (30% × 250,000) | 75,000 | |
| Goodwill on acquisition attributable to NCI | | 10,000 |
| Total goodwill at acquisition | | 50,000 |

Transaction costs incurred in making an acquisition must be written off as an expense and not added to the cost of the acquisition (IFRS3 revised).

**260 A**

| | Cheap | Chips | Adjustment | Consolidated |
|---|---|---|---|---|
| Revenue | 500,000 | 250,000 | (50,000) | 700,000 |
| Cost of sales | (250,000) | (130,000) | 50,000 | (330,000) |
| Gross profit | 250,000 | 120,000 | | 370,000 |

No adjustment for unrealised profit is required as all the goods had been sold outside the group by the end of the reporting period.

**261 C** The adjustment for unrealised profit will be:
$10,000 × 25/125 = $2,000

This will be allocated between non-controlling interests and the parent company: the group share is 60% i.e. $1,200

Group retained profit will be:

| | $ |
|---|---|
| Park | 200,000 |
| Sand (50,000 - 100,000 = 50,000 × 60%) | 30,000 |
| Less Unrealised profit | (1,200) |
| | 228,800 |

**262 D** If items (cash or inventory) are despatched on the last day of the year, the recipient will not have recorded the transaction and so the current account balances will not agree. The transaction must be entered in the books of the parent before the consolidation takes place, to ensure that the current account balances cancel each other on consolidation.

**263 B** The consolidated inventory of the group is $90,000 + $60,000 but this must be adjusted for the unrealised profit contained within the inventory of Brush of $2,000 (20/120 × $12,000).

**264 B** 100 + 90 - 20 + (6/12 × 80) = $210,000
The results of Jack and his subsidiaries must be combined, taking account of the fact that Jack has only controlled Jim for 6 months of the year, and so only the time apportioned figure should be included. In addition the inter-company trading must be cancelled as the sale has been double counted by the group. The $20,000 sale by John will be cancelled against the $20,000 purchase by Jack. The same adjustment is needed irrespective of whether the goods remain within the group at the year end or not.

**265 A** The inter company sale by Bill must be cancelled in full to give revenue of $100,000 + $80,000 - $30,000 = $150,000
Ben will have recorded the associated purchase, so $30,000 must also be removed from cost of sales, together with the elimination of the unrealised profit of $5,000

 

on the remaining inventory. This gives cost of sales of \$50,000 + \$40,000 - \$30,000 + \$5,000 = \$65,000. Resulting in a profit figure of \$150,000 - \$65,000 = \$85,000.

**266 D** 45% × 40,000 = 18,000
There is no adjustment for the unrealised profit as the sale is from the parent.

## Associates

**267 B**

| | $ |
|---|---|
| Cost of investment | 120,000 |
| Share of post acquisition profits | |
| (360 – 100 – 200) × 25% = 60 × 25% | 15,000 |
| | 135,000 |
| Less impairment | (10,000) |
| | 125,000 |

**268 A** The ability to exercise significant influence is the main point in the definition of an 'associate' under IAS 28.

**269 B** Participation in, but not control over financial and operating policies is the key test of significant influence.

**270 A** Company B - is unlikely that significant influence exists
Company C - this is a joint venture
Company D - control exists so this is a subsidiary

**271 A** The turnover figure will only include the parent and the subsidiary. Associates are equity accounted for, not consolidated. Therefore, the results for Luke will appear as a single line in the consolidated income statement to show the groups share of Luke's time apportioned profit after tax.

**272 C** Equity accounting is the only acceptable method of accounting for an associate in the group accounts. Acquisition accounting is used to consolidate a subsidiary; proportionate consolidation may be used for a joint controlled entity; pooling of interests is no longer allowed as an alternative method of consolidation.

**273 C**

| | |
|---|---|
| Bill | 100,000 |
| Bob | 80,000 |
| | 80,000 |

Ben is an ordinary investment, and not a subsidiary or an associate. The revenue of Ben is therefore irrelevant for the preparation of Bill's consolidated financial statements.

 

**274 B** Hill 50,000 + Slope 40,000. In profit or loss, there is a separate line for the group's share of the profit of the associate after tax; therefore the tax on profits of the associate is not included in the tax charge for the group.

**275 A** Yves 100+ Saint 100 = 200
Do not consolidate an associate. The consolidated statement of comprehensive income will include the entity's share of the associate's profit after tax, but will not include figures for the associate in other items (such as revenue) in profit or loss.

**276 C** Big 100 + Medium 100 + Small (40% × 100) = 240
The consolidated financial statements include all the profit of a subsidiary, and analyses this into the amount attributable to owners of the parent and the amount attributable to non-controlling interests.

**277 B** EV Company is unlikely to be able to demonstrate significant influence over Dick because of the other shareholder having control. Harry does not seem to satisfy will be classified as held for sale. Therefore Tom is the only investment that will be accounted for as an associate by the equity accounting method.

**278 D** The parent's share of the associate's net assets and profit after tax should be disclosed as a single line in the statement of financial position and in the statement of comprehensive income, not proportionately consolidated. The 'goodwill' in the investment in the associate is not disclosed separately and is simply included in the initial cost of the investment. The value of the investment in the associate (cost plus share of retained profits minus any impairment in the investment) is disclosed as a single line item in the statement of financial position. As the associate is outside of the group and hence not part of the 'single entity', debit and credit balances between the reporting entity and the associate should not be cancelled.

## Interpretation of financial statements

**279 D** Acid test ratio is (current assets less inventory) / current liabilities

**280 A** Assume initially that Apple has assets of 100 and liabilities of 125
Its current ratio prior to the transaction will be: 100/125 = 0.8
If it then pays its trade payables 50 the current assets will be 50 and the liabilities 75.
Hence the new current ratio is 50/75 = 0.67, i.e. a decrease.

**281 B**

| | days |
|---|---|
| Inventory turnover: 185/420 × 365 | 60.8 |
| Average collection period: 62.5/500 × 365 | 45.6 |
| Average time to pay: 42/280 × 365 | (54.8) |
| | 51.6 |

**282 B**

| | | 20X4 | | 20X5 |
|---|---|---|---|---|
| Net current assets | (10 + 14 + 3 - 11) | 16 | (13 + 11+ 2 – 9) | 17 |
| Quick ratio | (14 + 3)/11 | 1.55 | (11 + 2)/9 | 1.44 |
| Collection period | (14/140 × 365) | 36.5 days | (11/120 × 365) | 33.5 days |
| Payment period | (11/80 × 365) | 50.2 days | (9/60 × 365) | 54.8 days |

**283 B** Debt = 20 + 15 + 10 = 45
Equity = 50 + 65 + 25 = 140
Gearing = 45/(45 + 140) = 24.3 %
Note Debt: Equity = 45/140 = 32.1%

**284 D** The acid test ratio excludes all inventory balances, and is based on short-term creditors only.

**285 B** Credit sales = 300,000

Average receivables $= \frac{40 + 60}{2}$

$= 50,000$

Receivable turnover $= \frac{300,000}{50,000}$

$= \underline{6}$

**286 C** Receivables of £20,000 represent 40 days' credit sales. Therefore receivables of £182,500 would represent 365 days' credit sales. If turnover represents cost plus 25% profit, the cost of credit sales is

$$\frac{£182,500}{1.25} = \underline{£146,000}$$

**287 B** Return on long-term funds $= \frac{\text{Operating profit (before debenture interest)}}{\text{Share capital + Reserves + Debentures}}$

$= \frac{795}{4,000}$

$= 19.9\%$

 

**288 D** Credit sales $= £200 \times 80\%$

$= £160$

Average receivables $= \dfrac{£(16+24)}{2}$

$= £20$

Receivables' turnover $= \dfrac{£160}{£20}$

$= 8$

Collection period $= \dfrac{365}{8}$

$= 46$ days

| | £ | % |
|---|---|---|
| Sales | 200 | 100 |
| Cost of sales (40 + 120 – 50) | (110) | 55 |
| Gross profit | 90 | 45 |

**289 A**

$$\frac{\text{Profit}}{\text{Capital employed}} = \frac{\text{Profit}}{\text{Turnover}} \times \frac{\text{Turnover}}{\text{Capital employed}}$$

(Return on capital employed) (Profit margin) (Asset turnover)

$$0.80 = \frac{\text{Profit}}{\text{Turnover}} \times 1.10$$

$$\frac{\text{Profit}}{\text{Turnover}} = \frac{0.80}{1.10}$$

$$= \underline{0.73}$$

**290 B** Receiving cash for a long-term loan increases current assets with no change in current liabilities, hence improves the ratio. Payment on an existing creditor improves the ratio.

Writing off a receivable against a provision has no effect on current assets. Therefore receiving cash in respect of a short-term loan must be the correct choice.

Thus, suppose current ratio is 2:1, say loan = £50

| | | |
|---|---|---|
| Inventory receivables and bank | 100 + 50 | 150 |
| Current liabilities | 50 + 50 | 100 |
| Current ratio | 2:1 | 1.5:1 |

**291 B** Suppose current ratio is 2:1, say dividend = £25

| | | |
|---|---|---|
| Inventory, receivables and bank | 100 – 25 | 75 |
| Current liabilities | 50 – 25 | 25 |
| Current ratio | 2:1 | 1.3:1 |

The current ratio therefore increases. Working capital in the balance sheet, i.e. net current assets, is unchanged.

**292 B** Suppose that inventorys are £1,200, cash plus receivables are £800 and creditors (including a £200 proposed dividend) are £1,000.

Payment of the dividend will cause cash plus receivables to fall to £600 and creditors to fall to £800.

The current ratio will increase to 2.25 (1,800 ÷ 800).

The quick ratio will decrease to 0.75 (600 ÷ 800).

**293 B**

| | £m | £m |
|---|---|---|
| Turnover | 240 – 30 | 210 |
| Cost of sales | 180 – 10 | (170) |
| Gross profit | 60 | 40 |

Gross profit % $= \frac{400}{210} \times 100\%$

$= \underline{19.0\%}$

**294 A** For example

| | £ | £ |
|---|---|---|
| Sales | 100 x 90% | 90 |
| Costs | 75 x 92% | 69 |
| Gross profit | 25 | 21 x 1.15 = £24.15 |

Gross profit rate falls from 25% to 23⊗% ($^{21}/_{90}$) and gross profit falls in absolute terms.

**295 B**

| | £ |
|---|---|
| Effect on ratios | |
| Additional | |
| Sales | 1,200 |
| Profit | 96 |
| | |
| Return | 8% (7%) |
| | |
| Existing return on assets employed (2.5 x 7%) | 17.5% |
| Return on new investment $\frac{£96}{600}$ | 16% |

**296 A** Cost plus 50% is equivalent to a gross profit ratio of 33%. The fishmonger's gross profit margin may be low because of wastage. The loan interest and rental would not affect gross profit and declining turnover would not directly affect the gross profit percentage.

# 2013

# ACCA F3

# Financial Accounting

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