

**ACCA FINAL ASSESSMENT**

# **Financial Accounting**

**December 2014**

**Time allowed**                      2 hours

This paper is divided into two sections:

Section A – ALL 35 questions are compulsory and **MUST** be answered.

Section B – BOTH questions are compulsory and **MUST** be answered.

**Do NOT open this paper until instructed by the supervisor.**

**This question paper must not be removed from the examination hall.**

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**Paper F3 and FFA**

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**SECTION A****ALL 35 QUESTIONS ARE COMPULSORY AND MUST BE ANSWERED**

- 1 The following sales tax account has been provided by Jenny for the quarter ended 30 June 20X9. The account was prepared by an inexperienced book keeper.

Sales tax \$			
Bal b/d (amount owing to the tax authority)	11,450	Purchases (sales tax element)	116,280
Sales (sales tax element)	258,400	Purchases returns (sales tax element)	2,325
Bank (payment on account to tax authority)	9,000	Bal c/d	160,245
	278,850		278,850
Bal b/d	160,245		

What is the correct sales tax balance for the quarter ended 30 June 20X9?

- A \$160,245 debit  
 B \$146,895 credit  
 C \$160,245 credit  
 D \$123,995 credit **(2 marks)**
- 2 In the previous year Simone had a gross profit margin of 10%. In the current year, this increased to 15%.

Which of the following reasons might explain this?

- A The volume of sales has been higher in the current year  
 B Current year prompt payment discounts have been higher  
 C There have been higher levels of inventory obsolescence in the current year  
 D The mix of products sold in the current year has changed **(2 marks)**

- 3 Below are the extracts of the trial balance of Pattinsons, a limited liability entity, for the year ended 30 June 20X8:**

	<i>Dr</i>	<i>Cr</i>
Plant and machinery cost	\$230,400	
Accumulated depreciation (as at 1 July 20X8)		\$115,200

During the year ended 31 June 20X9 a new piece of plant and machinery was purchased at a cost of \$50,000.

The entity depreciates plant and machinery at 20% per annum on a reducing balance basis.

The depreciation charge for the year ended 30 June 20X9 should be

- A \$33,040
- B \$31,040
- C \$72,000
- D \$74,000 (2 marks)

- 4 When a prompt payment discount is received from a supplier the double entry is as follows:**

- A Dr Discounts received, Cr Payables control
- B Dr Payables ledger, Cr Discounts received
- C Dr Payables ledger control, Cr Discounts received
- D Dr Payables ledger control, Cr Discounts allowed (2 mark)

- 5 When Roberts' trial balance was extracted, the total of the debit balances was \$208,462 and the total of the credit balances was \$208,642. He opened a suspense account for this difference and, upon investigation, he found that:**

- (i) a cash sale for \$50 was debited to the cash account, but no entry was made in the sales account;
- (ii) the opening inventory figure of \$1,200 was omitted from the trial balance.

When Robert corrects these errors what is the balance on his suspense account?

- A \$1,070 debit
- B \$1,330 credit
- C \$1,280 debit
- D \$970 credit (2 marks)

- 6** Whilst preparing his accounts, Edward discovered that he had incorrectly classified an item of revenue expenditure as capital expenditure.

When the error is corrected, how will his net profit and capital be affected?

	<i>Net profit</i>	<i>Capital</i>	
A	Increased	Reduced	
B	Reduced	Increased	
C	Increased	Increased	
D	Reduced	Reduced	(2 marks)

- 7** At 31 May 20X8, Bella's capital balance was \$144,867. During the year to 31 May 20X9, her profit was \$25,764. At 31 May 20X9 her capital balance was \$153,153

What were Bella's drawings for the year to 31 May 20X9?

A	\$8,286	
B	\$17,478	
C	\$34,050	
D	\$70,814	(2 marks)

- 8** The following bank reconciliation has been prepared by an entity's bookkeeper as at 31 July 20X9:

	\$
Overdraft per bank statement	47,500
Add: Unpresented cheques	2,400
Less: Lodgements/deposits credited	45,700
	<hr/>
Balance per cash book	95,600
	<hr/>

What is the correct balance per the cash book?

- |   |                    |           |
|---|--------------------|-----------|
| A | \$90,800 in hand   |           |
| B | \$4,200 overdraft  |           |
| C | \$4,200 in hand    |           |
| D | \$90,800 overdraft | (2 marks) |
- 9** At 30 April 20X9 Forks, a limited liability entity, was being sued by an ex-employee for wrongful dismissal. Forks has been advised that the claim is 95% likely to succeed, and that damages of \$140,000 will be payable if the claim does succeed.

How should this matter be treated in the financial statements of Forks for the year ended 30 April 20X9?

A	A provision should be made for \$140,000	
B	The matter should be ignored	
C	A provision should be made for \$133,000	
D	The matter should be disclosed by a note	(2 marks)

- 10 An entity lets out a number of properties. The total rent received in the year ended 30 June 20X9 was \$617,000. The following amounts were received in advance or were in arrears at the dates shown:**

	<i>30 Jun 20X9</i>	<i>1 Jul 20X8</i>
	\$	\$
Rent received in advance	25,250	37,900
Rent in arrears (all subsequently received)	12,250	31,000

What amount of rental income should appear in the statement of profit or loss for the year ended 30 June 20X9? **(2 marks)**

- 11 Smith acquired 80% of the equity share capital of Jones for \$1,400,000. At that date the share capital of Jones consisted of 600,000 equity shares of 50c each and its reserves were \$50,000.**

The fair value of the non-controlling interest was valued at \$525,000 at the date of acquisition. In the consolidated statement of financial position of Smith Group what amount should appear for goodwill? **(2 marks)**

- 12 Which of the following statements is correct?**

- A Capital expenditure on research must be capitalised and depreciated as normal
- B Dividends proposed after the year end must not be accrued in the accounts
- C Contingent liabilities should always be provided in the accounts
- D Land should be depreciated over 50 years **(2 marks)**

- 13 Ark, a limited liability entity, has the following capital structure:**

	\$
200,000 Equity shares of 50c each	100,000
20,000 20% irredeemable preference shares of \$1 each	20,000

The preference shareholders had their dividend paid during the year.

The following information has been provided for equity shareholders:

- (i) Dividend declared **before** the year end was 10 cents per share.
- (ii) Dividend declared **after** the year end was 15 cents per share.

What are the dividends that should be included in the statement of changes in equity (**SOCIE**) and the statement of financial position for the year ended 31 March 20X9?

	<i>SOCIE</i>	<i>Statement of Financial Position</i>
	\$	\$
A	24,000	20,000
B	20,000	20,000
C	50,000	4,000
D	50,000	50,000

**(2 marks)**

**14 In a set of financial statements the proceeds received on disposal of non-current assets are normally disclosed in which of the following statements?**

- A Statement of cash flows
- B Statement of cash flows and statement of profit or loss
- C Statement of profit or loss and statement of financial position
- D Statement of changes in equity and statement of financial position **(2 marks)**

**15 You are preparing the final accounts for a business. The cost of the items in closing inventory is \$41,875. This includes some items which cost \$1,960 and which were damaged in transit. You have estimated that it will cost \$360 to repair the items, and they can then be sold for \$1,200. What is the correct inventory valuation for inclusion in the final accounts?**

- A \$39,915
- B \$40,755
- C \$41,515
- D \$42,995 **(2 marks)**

**16 Mark's trial balance at 31 October 20X9 includes the following balances:**

	\$
Machinery at cost	85,800
Accumulated depreciation on machinery	21,750
Trade receivables	42,650
Allowance for receivables	1,570
Bank overdraft	6,470
Inventory at 1 November 20X8	21,650

His inventory at 31 October 20X9 is valued at \$22,300

What value should be reported for current assets in Mark's statement of financial position at 31 October 20X9? **(2 marks)**

**17 A trial balance is made up of a list of debit balances and credit balances.**

Which of the following statements is correct?

- A Every debit balance represents an expense
- B Assets are represented by debit balances
- C Liabilities are represented by debit balances
- D Income is included in the list of debit balances **(2 marks)**

**18 Which of the items listed below could appear in an entity's statement of changes in equity?**

- (i) Profit for the year.
- (ii) Closing inventory.
- (iii) Loans.
- (iv) Proposed dividends.
- (v) Dividends paid.

- A (i), (ii) and (iv)
- B (i), (ii) and (iii)
- C (i) and (iv)
- D (i) and (v)

**(2 marks)**

**19 During the year to 30 September 20X9 Claire paid \$16,750 for light and heat. At 1 October 20X8 she owed \$2,565 in relation to light and heat expenses incurred for the period to 30 September 20X8 and at 30 September 20X9 she had paid \$956 in advance for light and heat.**

What charge for light and heat will appear in the statement of profit or loss for the year ended 30 September 20X9? **(2 marks)**

**20 At 30 September 20X8 Shauna had non-current assets with a carrying value of \$345,876.**

At 30 September 20X9 the non-current assets carrying value was \$457,987. During the year to 30 September 20X9 a non-current asset was sold for \$2,870, resulting in a profit on disposal of \$1,500. Depreciation on all non-current assets during the year amounted to \$16,750.

Assuming that these were the only adjustments to non-current assets during the year what were the additions to non-current assets during the year to 30 September 2009?

- A \$130,231
- B \$131,731
- C \$130,361
- D None of the above

**(2 marks)**

**21 At 30 November 20X9 Hollie's general ledger included the following balances:**

Trade receivables	\$132,425
Allowance for receivables at 1 December 20X8	\$2,430
Hollie's allowance for receivable should be revised to	\$1,100

How should receivables be reported on Hollie's statement of financial position?

- A Current asset of \$132,425, Current liability \$1,100
- B Current asset of \$131,325
- C Current asset of \$134,855, Current liability \$1,100
- D Current asset of \$133,755

**(2 marks)**



**22 In which of the following books of prime entry would a disposal of a non-current asset appear?**

- A Cash book
- B The journal
- C Purchase day book
- D Sales day book

**(2 marks)**

**23 At 1 July 20X8 Jenks, an entity, had issued share capital of \$1,500,000 comprised of equity shares with a nominal value of \$1.25 per share, together with a balance on its share premium account of \$320,000.**

During the year to 30 June 20X9, Jenks made a bonus issue of equity shares of 1 for 6. This was fully taken up by the equity shareholders.

What is the balance on the share premium account at 30 June 20X9?

- A \$120,000
- B \$70,000
- C \$75,000
- D \$320,000

**(2 marks)**

**24 An entity, Dibble, has an accounting year-end of 31 December and has 120,000 \$1 equity shares in issue. During the year ended 31 December 20X0 an interim dividend of 5 cents per share was paid and a final dividend of 10 cents per share was proposed on 30 December.**

In relation to equity dividends how much will appear on the SOCIE for the year ended 31 December 20X0?

- A \$6,000
- B NIL
- C \$18,000
- D \$12,000

**(2 marks)**

**25 Which of the following errors should be detected by preparing a trial balance?**

- A A credit with no corresponding debit entry
- B An error of commission
- C A transaction for which no entries were made
- D An error of original entry

**(2 marks)**

- 26 Barrowhall, an entity, had an under provision of \$5,000 on its tax liability account at 31 January 20X9 before accounting for the current year income tax charge.**

The estimated tax on profit for the year ended 31 January 20X9 was \$83,000.

What amounts should be included in the financial statements for year ended 31 January 20X9 in respect of tax?

	<i>Profit or loss</i>	<i>Statement of financial position</i>	
A	\$83,000	\$83,000	
B	\$88,000	\$88,000	
C	\$88,000	\$83,000	
D	\$78,000	\$83,000	<b>(2 marks)</b>

- 27 On 1 April 20X8 Brendon was owed \$61,784 by his credit customers. During the year to 31 March 20X9 his credit sales totalled \$660,846, discounts allowed totalled \$11,945, irrecoverable debts were \$6,150 and dishonoured cheques amounted to \$250. The amount received from credit customers during the year was \$655,135. On 31 March 20X9, Brendon was owed \$52,278 from his credit customers.**

What was the amount of interest was charged to credit customers for late payment during the year ended 31 March 20X9? **(2 marks)**

- 28 The International Accounting Standards Board (IASB) is the supervisory body for the regulatory framework of accounting. Its objective is to:**

- (i) Develop single set of high quality accounting standards.
- (ii) Promote use and application of accounting standards.
- (iii) Encourage the convergence of national and international accounting standards.

- A None of the above
- B (i) and (ii) only
- C (iii) only
- D All of the above **(2 marks)**

- 29 Which of the following choices comprises the four enhancing qualitative characteristics of financial information based upon the IASB's Conceptual Framework for Financial Reporting?**

- A Comparability, verifiability, timeliness and understandability
- B Relevance, reliability, prudence and understandability
- C Relevance, faithful representation, prudence and accruals
- D Relevance, reliability, prudence, and understandability **(2 marks)**

**30 Carla is preparing a bank reconciliation. The bank balance in the general ledger is \$3,750 credit. The only items which need to be dealt with are:**

- (i) a cheque for \$2,466 issued to a supplier which has not yet appeared on the bank statement
- (ii) a cheque receipt from a credit customer of \$1,701 has been dishonoured, Carla has not yet recorded this
- (iii) bank interest of \$735 has been charged by the bank, but not yet recorded by Carla.

What is the closing balance on the bank statement (before adjusting for any of the above items)?

- A \$6,186
- B \$3,750
- C \$5,520
- D \$3,720

**(2 marks)**

**31 Durzo, an entity, has the following building in its financial statements at 30 June 20X8:**

Cost	\$2,400,000
Accumulated depreciation	\$(600,000)
	\$1,800,000
Net book value	\$1,800,000

It has been decided to revalue the property to \$3,600,000 on 1 July 20X8.

What is the double entry to record the above revaluation?

		\$		
A	Dr	Cost	1,200,000	
	Dr	Accumulated depreciation	600,000	
	Cr	Revaluation reserve	1,800,000	
B	Dr	Cost	1,800,000	
	Cr	Revaluation reserve	1,800,000	
C	Dr	Cost	1,200,000	
	Cr	Revaluation reserve	1,200,000	
D	Dr	Revaluation reserve	1,800,000	
	Cr	Cost	1,200,000	
	Cr	Accumulated depreciation	600,000	<b>(2 marks)</b>

**32 After completing his final accounts, Kyler identified that he had understated a year end accrual.**

How are Kyler's net profit and capital affected by the correction of the error?

		<i>Net profit</i>	<i>Net assets</i>
A	Increased		Increased
B	Increased		Decreased
C	Decreased		Increased
D	Decreased		Decreased

**(2 marks)**

**33** Whilst carrying out the reconciliation of the balance on the payables control account in the general ledger with the supplier's statements, Jarl discovered the following errors:

- (i) A supplier's statement had not accounted for cash in transit of \$1,200.
- (ii) The total of the purchase day book was overcast by \$8,000.
- (iii) Jarl took a settlement discount of \$400 that was not allowed by the supplier on their statement as the payment was late.

Which of the above errors require a correcting entry in the control account?

- A (i) and (ii) only
- B (ii) and (iii) only
- C (iii) only
- D All of the above

**(2 marks)**

**34** Tanya's accounting year end is 30 June. She depreciates motor vehicles at 20% per annum on the straight line basis. A full depreciation charge is made in the year of acquisition, and none in the year of disposal.

In September 20X6 Tanya bought a van for \$27,000.

If the van is sold for \$12,000 in January 20X9, what will be Tanya's profit or loss on disposal?

- A A profit of \$4,200
- B A loss of \$4,200
- C A profit of \$1,200
- D A loss of \$1,200

**(2 marks)**

**35** Barry's Bakery has a quick ratio of 1.6:1 which had fallen from 1.9:1.

Which of the following might explain this?

- A The allowance for receivables has been reduced
- B Credit control has been poor
- C The entity purchased new plant and machinery for cash
- D Inventory levels are lower in the current year

**(2 marks)**

**SECTION B****BOTH QUESTIONS ARE COMPULSORY AND MUST BE ANSWERED**

- 1 The statements of profit or loss for the year ended 30 June 20X2, together with the statements of financial position at 30 June 20X2 for two entities, Gold and Silver are given below:

**Statements of profit or loss for the year ended 30 June 20X2**

	<i>Gold</i> \$000	<i>Silver</i> \$000
Revenue	15,000	7,500
Cost of sales	(9,000)	(3,000)
	<hr/>	<hr/>
Gross profit	6,000	4,500
Distribution and admin expenses	(1,500)	(1,000)
	<hr/>	<hr/>
	4,500	3,500
Finance cost	(250)	(150)
	<hr/>	<hr/>
	4,250	3,350
Tax	(500)	(450)
	<hr/>	<hr/>
Profit for the year	3,750	2,900
	<hr/>	<hr/>

There were no items of other comprehensive income during the year

**Statements of financial position at 30 June 20X2**

	<i>Gold</i> \$000	<i>Silver</i> \$000
<b>Non-current assets</b>		
Property, plant and equipment	11,000	7,000
Investments:		
Investment in Silver at cost	10,000	
	<hr/>	<hr/>
	21,000	7,000
<b>Current assets</b>		
Inventory	10,000	4,000
Trade receivables	9,000	3,500
Cash and cash equivalents	2,000	500
	<hr/>	<hr/>
<b>Total assets</b>	42,000	15,000
	<hr/>	<hr/>

	<i>Gold</i>	<i>Silver</i>
	\$000	\$000
<b>Equity and liabilities</b>		
Equity shares of \$1 each	20,000	3,000
Share premium	4,000	1,000
Retained earnings	7,500	5,500
	<hr/>	<hr/>
	31,500	9,500
Current liabilities		
Trade payables	10,000	5,050
Tax liability	500	450
	<hr/>	<hr/>
<b>Total equity and liabilities</b>	<b>42,000</b>	<b>15,000</b>
	<hr/>	<hr/>

**Additional information:**

- (i) The amounts included in the statements of profit or loss have accrued evenly throughout the year.
- (ii) Gold acquired eighty per cent of Silver's equity shares on 1 January 20X2. At that date, Silver had a building which had a fair value of \$1,000,000 in excess of its carrying value. (Note: ignore any depreciation that may be required on this fair value adjustment).
- (iii) At the date of acquisition, the fair value of the non-controlling interest in Silver was \$2,000,000. It is group policy to account for goodwill using the full goodwill method.
- (iv) Gold carried out an impairment review of the goodwill arising on acquisition of Silver and found that as at 30 June 20X2, goodwill was not impaired.
- (v) Following acquisition of Silver, Gold sold goods to Silver for \$500,000. Gold uses a mark up of 100% on cost on the goods sold to Silver. At 30 June 20X2 all the goods remained in Silver's closing inventory and Silver had not yet paid for the goods.

**Required:**

- (a) Explain the difference between a subsidiary and an associate. Your answer should include reference to how they are accounted for in the group accounts. (3 marks)
- (b) Prepare the group statement of profit or loss and other comprehensive income, for the year ended 30 June 20X2 together with the group statement of financial position at 30 June 20X2 for the Gold group. (12 marks)

**(Total: 15 marks)**

- 2 The following financial statements and supporting information relate to Bassoon, a limited liability entity:

**Statement of profit or loss and other comprehensive income for the year ended 30 June 20X8**

	\$000
Revenue	85,700
Cost of sales	(58,650)
	<hr/>
Gross profit	27,050
Distribution costs	(2,270)
Administration expenses	(755)
Interest payable	(250)
	<hr/>
Profit before tax	23,775
Income tax expense	(4,500)
	<hr/>
Profit for the year	19,275
Other comprehensive income: Revaluation surplus on land	10,000
	<hr/>
Total comprehensive income for the year	29,275
	<hr/>

**Bassoon - Statement of financial position at 30 June:**

	20X8	20X7
<i>ASSETS</i>		
<i>Non-current assets</i>		
Property, plant and equipment - cost or valuation	216,250	200,000
Property, plant and equipment – accumulated depreciation	(122,250)	(110,000)
	<hr/>	<hr/>
	94,000	90,000
<i>Current assets</i>		
Inventories	37,250	31,500
Trade receivables	39,250	32,500
Cash and equivalents	3,750	8,000
	<hr/>	<hr/>
Total assets	174,250	162,000
	<hr/>	<hr/>
<i>EQUITY AND LIABILITIES</i>		
Equity share capital	35,000	30,000
Share premium	3,000	8,000
Revaluation reserve	19,000	9,000
Retained earnings	85,275	75,000
	<hr/>	<hr/>
Total equity	142,275	122,000
<i>Non-current liabilities</i>		
Bank loan	6,975	10,000
<i>Current liabilities</i>		
Trade payables	20,500	23,000
Income tax	4,500	7,000
	<hr/>	<hr/>
Total equity and liabilities	174,250	162,000
	<hr/>	<hr/>

**Notes:**

The following information is relevant to the financial statements of Bassoon:

- (i) During the year ended 30 June 20X8, Bassoon recorded several transactions relating to property, plant and equipment as follows:
  - (a) Plant and equipment which cost \$21.75 million was sold for \$13.0 million. The loss on disposal of \$3.0 million is included in cost of sales.
  - (b) Freehold land was revalued to its fair value at 30 June 20X8.
- (ii) Bassoon estimated that the income tax liability arising on the profit for the year ended 30 June 20X8 was \$4.5 million.
- (iii) During the year, Bassoon made a bonus issue of one share for every six shares in issue.

**Required:**

**Based upon the available information, prepare a statement of cash flows using the indirect method for Bassoon for the year ended 30 June 20X8 in accordance with the requirements of IAS 7. (15 marks)**