

**ACCA INTERIM ASSESSMENT**

# **Financial Accounting**

**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 Which of the following is the accounting equation?**

- A Assets + Liabilities = Capital + Profit – Drawings
- B Assets – Liabilities = Capital + Profit + Drawings
- C Assets – Liabilities = Capital + Profit – Drawings
- D Assets + Liabilities = Capital – Profit + Drawings

**(2 marks)**

**2 Which of the following is *incorrect*?**

- A A debit entry increases assets  
A debit entry increases drawings  
A credit entry increases profit
- B A debit entry decreases liabilities  
A credit entry increases capital  
A credit entry increases profit
- C A credit entry decreases assets  
A debit entry increases drawings  
A debit entry increases profit
- D A credit entry increases liabilities  
A credit entry increases capital  
A debit entry decreases profit

**(2 marks)**

**3 A business part-exchanged an old motor vehicle for a new vehicle. The old vehicle originally cost \$12,000 and had a carrying value of \$7,000 when it was disposed. A part-exchange allowance of \$6,000 was given against the cost of the new vehicle of \$18,000.**

What is the profit or loss made on the disposal of the old motor vehicle?

.....

**(2 marks)**

**4 The imprest system applied to operating petty cash means?**

- A The exact amount of expenditure is reimbursed to maintain a fixed float
- B A petty cash book is periodically updated
- C Petty cash vouchers agree to the reconciliation
- D A random amount of cash is transferred into petty cash

**(2 marks)**

**5** Whilst carrying out the year-end inventory count, a business discovered that some of its inventory was damaged. This inventory had originally cost \$1,000 and it would normally sell for \$1,500. However, it is now thought that the inventory will sell for \$1,200 after some repair work has been carried out which will cost \$300.

At what value should this inventory be recorded in the financial statements?

..... (2 marks)

**6** Which of the following are not recorded in the cash book?

- A Cash sales
  - B Cash purchases
  - C Prompt payment discounts
  - D Accrued electricity expenses
- (2 marks)

**7** Which of the following statements is true?

- A Reducing an allowance for receivables will reduce profit
  - B Increasing a provision will increase profit
  - C Accumulated depreciation is an expense in the statement of profit or loss
  - D Prepaid income is a liability on the statement of financial position
- (2 marks)

**8** At 30 April 20X7, Judith had three items of closing inventory that had been valued as follows:

|           | Cost    | NRV     |
|-----------|---------|---------|
| Product X | \$5,600 | \$5,500 |
| Product Y | \$1,350 | \$1,600 |
| Product Z | \$3,275 | \$2,960 |

What is the correct value of closing inventory to be included in Judith’s financial statements at 30 April 20X7?

- A \$9,810
  - B \$10,060
  - C \$10,225
  - D \$10,475
- (2 marks)

**9** Which of the following should appear in a company’s statement of changes in equity?

- (1) A revaluation gain
  - (2) Issue of new share capital
- A (1)
  - B (2)
  - C (1) and (2)
  - D None of the above
- (2 marks)

- 10 At 31 January 20X7, Joe has a receivables' balance of \$156,785. Following a review of receivables, Joe wishes to write off irrecoverable debts of \$3,455 and to make a specific allowance against a debt of \$1,750. Based on past experience, he also wishes to maintain an allowance at 5% of remaining receivables.**

What is the total allowance for receivables that Joe now requires?

..... (2 marks)

- 11 At 1 April 20X5, Iman had accrued \$450 for light and heat. During the year ended 31 March 20X6 she paid light and heat bills that amounted to \$1,900, and at 31 March 20X6 she estimated that she owed \$500 in respect of light and heat.**

What is the charge to profit or loss in respect of light and heat for the year ended 31 March 20X6?

- A \$1,900
  - B \$1,950
  - C \$1,850
  - D \$1,800
- (2 marks)

- 12 From the following details, calculate the closing bank statement balance:**

|                                                                                                           |        |
|-----------------------------------------------------------------------------------------------------------|--------|
|                                                                                                           | \$     |
| Unpresented/outstanding cheques                                                                           | 5,000  |
| Deposits not credited (lodgements)                                                                        | 4,850  |
| Closing bank balance in the records of the business (debit balance) <b>before</b> adjustments shown below | 50,000 |
| Bank charges                                                                                              | 250    |
| Dishonoured cheques                                                                                       | 400    |

- A \$49,350
  - B \$49,200
  - C \$50,300
  - D \$49,500
- (2 marks)

- 13 At 1 January 20X7, Haley had a receivables' balance of \$15,000. During the year ended 31 December 20X7, the following transactions took place:**

|                                |          |
|--------------------------------|----------|
| Credit sales                   | \$96,700 |
| Cash sales                     | \$10,250 |
| Receipts from credit customers | \$85,900 |
| Discounts allowed              | \$5,450  |
| Refunds to credit customers    | \$575    |

What is Haley's receivables' balance as at 31 December 20X7?

- A \$19,775
  - B \$20,925
  - C \$21,500
  - D \$31,175
- (2 marks)

**14 What is the double entry required when a prompt payment discount is received?**

- A Dr Discounts received Cr Payables
- B Dr Payables Cr Discounts received
- C Dr Discounts allowed Cr Payables
- D Dr Discounts allowed Cr Receivables **(2 marks)**

**15 At 31 January 20X7, George's bank statement shows a credit balance of \$1,500. In comparing this with his cashbook, George has found the following:**

- cheque payments amounting to \$450 have not yet been presented at the bank for payment.
- bank charges of \$20 have not been recorded in his cashbook.
- cheque receipts amounting to \$200 are not shown on the bank statement.

What amount should appear in George's statement of financial position at 31 January 20X7 for cash at bank?

- A \$1,500
- B \$1,250
- C \$1,750
- D \$1,230 **(2 marks)**

**16 Which of the following best describes an accrued expense?**

- A An expense that will be incurred in the next accounting period but that has been paid for in this accounting period
- B An expense that has been incurred in this accounting period but that was paid for in the last accounting period
- C An expense that has been incurred in this accounting period but will be paid for in the next accounting period
- D An expense that will be incurred and paid for in the next accounting period **(2 marks)**

**17 A business sold goods to a customer that had a full price of \$1,500. The customer was given a trade discount of 10%, and was also offered a cash discount of 5% for prompt payment. The customer took advantage of the cash discount.**

How much did the customer pay the business for the goods?

- A \$1,425.00
- B \$1,350.00
- C \$1,282.50
- D \$1,275.00 **(2 marks)**

- 18 A business has incorrectly recorded discounts allowed of \$230 by crediting the discounts allowed account with \$320. The entry in the receivables account was made correctly.**

What double entry is required to correct this error?

- |   |                            |                            |                  |
|---|----------------------------|----------------------------|------------------|
| A | Dr Discounts allowed \$90  | Cr Suspense \$90           |                  |
| B | Dr Suspense \$90           | Cr Discounts allowed \$90  |                  |
| C | Dr Discounts allowed \$550 | Cr Suspense \$550          |                  |
| D | Dr Suspense \$550          | Cr Discounts allowed \$550 | <b>(2 marks)</b> |

- 19 Whilst carrying out reconciliation between the receivables' ledger control account and the receivables' ledger, Charlie found that the sales returns day book had been undercast by \$20.**

How should this error be corrected in the receivables' ledger control account and the list of balances per the receivables' ledger?

- |   | <i>Receivables' ledger control account</i> | <i>List of balances</i> |                  |
|---|--------------------------------------------|-------------------------|------------------|
| A | Credit \$20                                | Subtract \$20           |                  |
| B | Debit \$20                                 | Subtract \$20           |                  |
| C | No correction required                     | Subtract \$20           |                  |
| D | Credit \$20                                | No correction required  | <b>(2 marks)</b> |

- 20 Whilst carrying out reconciliation between the payables' ledger control account and the payables' ledger, Betty found that a purchase of goods for \$575 had been recorded in the purchase day book as \$557.**

How should this error be corrected in the payables' ledger control account and the list of balances per the payables' ledger?

- |   | <i>Payables' ledger control account</i> | <i>List of balances</i> |                  |
|---|-----------------------------------------|-------------------------|------------------|
| A | Debit \$18                              | Add \$18                |                  |
| B | Credit \$18                             | Add \$18                |                  |
| C | Debit \$18                              | Subtract \$18           |                  |
| D | Credit \$18                             | No correction required  | <b>(2 marks)</b> |

- 21 A business purchased a new machine for \$15,000 on 31 May 20X6. The machine was delivered and installed at an additional cost of \$1,000. The business's policy is to depreciate machinery at 10% on the straight-line basis, with proportionate monthly charges made in the year of acquisition and disposal.**

Calculate the depreciation will be charged on this piece of machinery in the year ended 31 December 20X6?

..... **(2 marks)**

- 22 At 1 April 20X5, Eleanor had accrued income of \$1,000 in respect of rent receivable. She charges her tenants \$6,000 per annum for rent, and at 31 March 20X6 her tenants had prepaid rent of \$800.**

How much cash did Eleanor receive from her tenants in the year ended 31 March 20X6?

- A \$7,800
  - B \$6,200
  - C \$5,800
  - D \$4,200
- (2 marks)**

- 23 Which of following statements is false?**

- A The trial balance is a book a prime entry
  - B Drawings appear on the debit side of the trial balance
  - C A suspense account can be a credit or a debt balance on the trial balance
  - D Sales tax can be a debit balance on the trial balance
- (2 marks)**

- 24 At 1 January 20X7, a business owed \$6,500 in respect of sales tax. During the quarter ending 31 March 20X7, a business made sales of \$45,000 (excluding sales tax) and made purchases amounting to \$35,250 (including sales tax).**

Assuming that sales tax is charged at the standard rate of 17.5%, what is the balance on the sales tax account at 31 March 20X7?

- A \$9,125 debit
  - B \$9,125 credit
  - C \$8,207 debit
  - D \$8,207 credit
- (2 marks)**

- 25 The following information relates to a business for the year ended 31 March 20X7:**

|                   |           |
|-------------------|-----------|
| Sales revenue     | \$175,000 |
| Purchases         | \$145,000 |
| Opening inventory | \$15,000  |
| Closing inventory | \$12,000  |
| Sales returns     | \$3,000   |
| Purchase returns  | \$2,500   |
| Carriage inwards  | \$500     |
| Carriage outwards | \$250     |

What is the cost of sales for the business for the year ended 31 March 20X7?

- A \$148,500
  - B \$148,000
  - C \$146,000
  - D \$145,500
- (2 marks)**



- 26 Which of the following statements is true?**
- A Dividends paid to ordinary shareholders are an expense in the statement of profit or loss
  - B Dividends on ordinary shares are accounted for when proposed
  - C Ordinary shareholders are entitled to an annual dividend
  - D Dividends paid to the redeemable preference shareholders are an expense in the statement of profit or loss **(2 marks)**
- 27 An employee of Olga plc fell down the stairs during the year due to a slippery floor. He suffered a broken leg and is seeking compensation. Olga's solicitors advise the company that there is a 60% chance that they will have to pay \$50,000.**
- Which of the following is the correct accounting treatment for the claim in the financial statements?
- A Olga plc should neither provide for nor disclose the claim
  - B Olga should disclose a contingent liability of \$50,000
  - C Olga should provide for an expected cost of \$50,000
  - D Olga should provide for an expected cost of \$25,000 **(2 marks)**
- 28 At 1 January 20X6, the accounts of a sole trader show accrued rent payable of \$250. During the year he pays rent bills totalling \$1,275, including one bill for \$375 in respect of the quarter ending 31 January 2007.**
- What is the profit or loss charge for rent payable for the year ended 31 December 2006?
- A \$900
  - B \$1,150
  - C \$1,400
  - D \$1,650 **(2 marks)**
- 29 Which two of the following are not required to be disclosed as a note to the financial statements for intangible assets?**
- 1 The useful lives of intangible assets capitalised in the financial statements.
  - 2 A description of the development projects that have been undertaken during the period.
  - 3 A list of all intangible assets purchased or developed in the period.
  - 4 Impairment losses written off intangible assets during the period.
- A 1 and 4
  - B 2 and 3
  - C 3 and 4
  - D 1 and 2 **(2 marks)**

- 30** A business buys a machine on 31 August 20X2 for \$44,000. It has an expected useful life of seven years and an estimated residual value of \$2,000. On 30 June 20X6 the machine is disposed of for \$18,000. The business's year end is 31 December. Its accounting policy is to charge depreciation using the straight-line method, with a proportionate charge in the years of acquisition and disposal.

Calculate the profit or loss on the disposal of the machine.

- A Loss of \$3,500
- B Loss of \$3,000
- C Loss of \$2,000
- D Profit of \$4,000 **(2 marks)**

- 31** A company has a year end of 31 December 20X1. It takes out a \$1m 6% bank loan on 1 April 20X1. The company pays interest of 1 October 20X1 of \$30,000. What finance cost should appear in the statement of profit or loss for the year ended 31 December 20X1?

- A \$30,000
- B \$60,000
- C \$45,000
- D \$75,000 **(2 marks)**

- 32** What is the purpose of charging depreciation in the accounts?

- A To allocate the cost of a non-current asset over the accounting periods expected to benefit from its use
- B To ensure that funds are available for the eventual replacement of the asset
- C To reduce the cost of the asset in the statement of financial position to its estimated market value
- D To comply with the prudence concept **(2 marks)**

**33 IAS 1 (revised) *Presentation of financial statements* requires some of the items to be disclosed on the face of the financial statements and others to be disclosed in the notes:**

- (i) Depreciation.
- (ii) Revenue.
- (iii) Closing inventory.
- (iv) Finance cost.
- (v) Dividends.

Which two of the above have to be shown on the face of the statement of profit or loss, rather than in the notes?

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

**(2 marks)**

**34 What double entry should be made with the total of the purchases returns day book?**

- A Dr Payables  
Cr Purchases returns
- B Dr Purchases returns  
Cr Payables
- C Dr Purchases  
Cr Payables
- D Dr Payables  
Cr Bank

**(2 marks)**

**35 Zebedee purchases a machine for \$14,000. After incurring transportation costs of \$1,100 and spending \$1,500 on installing the machine, he is disappointed when it breaks down during the first month of operation. It costs \$1,000 to repair. Zebedee depreciates his machines at the rate of 10% per annum on cost.**

What is the asset's carrying value after one year?

- A \$12,600
- B \$13,950
- C \$14,940
- D \$15,840

**(2 marks)**

## SECTION B

### BOTH QUESTIONS ARE COMPULSORY AND MUST BE ANSWERED

1 An entity, Magnum, prepared a trial balance at 31 March 20X1 as follows:

|                                                | <i>Dr</i> | <i>Cr</i> |
|------------------------------------------------|-----------|-----------|
|                                                | \$        | \$        |
| Equity shares @ \$1 each                       |           | 40,000    |
| Share premium                                  |           | 12,500    |
| Trade and other payables                       |           | 25,342    |
| Land and buildings – cost                      | 281,450   |           |
| Land and buildings accumulated depreciation    |           | 65,332    |
| Plant and machinery – cost                     | 94,400    |           |
| Plant and machinery – accumulated depreciation |           | 24,500    |
| Trade receivables                              | 13,676    |           |
| Accruals                                       |           | 1,217     |
| 7% bank loan 20X5                              |           | 26,000    |
| Cash and equivalents                           |           | 848       |
| Retained earnings – 1 April 20X0               |           | 11,467    |
| Interest paid                                  | 455       |           |
| Sales revenue                                  |           | 480,742   |
| Purchases                                      | 153,444   |           |
| Administrative expenses                        | 37,266    |           |
| Distribution expenses                          | 23,587    |           |
| Allowance for receivables – 1 April 20X0       |           | 550       |
| Inventory – 1 April 20X0                       | 84,220    |           |
|                                                | 688,498   | 688,498   |

The following information is relevant to the preparation of the financial statements for the year ended 31 March 20X1:

The inventories at 31 March 20X1 were valued at a cost of \$87,004.

- (i) Included within land and buildings is non-depreciable land as a cost of \$100,000.
- (ii) During the year, an item of plant and machinery was disposed of for \$3,500. This plant and equipment had cost \$10,000 and had a carrying value of \$2,500 at the disposal date. The cash receipt had been wrongly included within sales revenue.
- (iii) Depreciation is to be charged to cost of sales for the year ended 31 March 20X0 as follows:
  - (a) Buildings – 2% per annum on a straight-line basis
  - (b) Plant and machinery – 25% per annum on a straight-line basis

- (iv) Trade receivables include an amount of \$276 which is regarded as irrecoverable and is to be written off. In addition, the allowance for receivables is to be adjusted to five per cent of trade receivables at 31 March 20X1. Any amounts to be charged to profit or loss should be included within administrative expenses.
- (v) The bank loan was taken out on 1 October 20X0 and is repayable in 20X5.
- (vi) Included within administrative expenses is an amount of \$2,500 for insurances. This payment covers the fifteen month period to 30 June 20X1.
- (vii) An accrual should be made for unpaid distribution costs of \$4,567.
- (viii) The income tax charge for the year has been estimated at \$33,740.

**Required:**

**Prepare the statement of profit or loss and other comprehensive income for Magnum for the year ended 31 March 20X1 and a statement of financial position at 31 March 20X1. (15 marks)**

- 2** You have been asked to help prepare the financial statements of Boston for the year ended 30 June 20X1. The company's trial balance as at 30 June 20X1 is shown below.

|                                         | <i>Dr</i> | <i>Cr</i> |
|-----------------------------------------|-----------|-----------|
|                                         | \$000     | \$000     |
| Equity share capital @ \$1              |           | 5,000     |
| Share premium                           |           | 2,500     |
| Revaluation reserve at 1 July 20X0      |           | 1,000     |
| Land & buildings – value/cost           | 12,300    |           |
| accumulated depreciation at 1 July 20X0 |           | 2,250     |
| Plant and equipment – cost              | 3,200     |           |
| accumulated depreciation at 1 July 20X0 |           | 1,800     |
| Trade and other receivables             | 2,028     |           |
| Trade and other payables                |           | 872       |
| 5% bank loan repayable 20X5             |           | 2,000     |
| Cash and cash equivalents               | 221       |           |
| Retained earnings at 1 July 20X0        |           | 1,292     |
| Sales revenue                           |           | 10,092    |
| Purchases                               | 6,723     |           |
| Distribution costs                      | 832       |           |
| Administrative expenses                 | 774       |           |
| Inventories at 1 July 20X0              | 728       |           |
|                                         | 26,806    | 26,806    |

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

- The inventories at the close of business on 30 June 20X1 cost \$842,000.
- Depreciation is to be provided for the year to 30 June 20X1 as follows:
 

|                                                       |               |                        |
|-------------------------------------------------------|---------------|------------------------|
| Buildings                                             | 2% per annum  | Straight line basis    |
| This should all be charged to administrative expenses |               |                        |
| Plant and equipment                                   | 20% per annum | Reducing balance basis |
| This is to be apportioned as follows:                 |               |                        |

|                         | %  |
|-------------------------|----|
| Cost of sales           | 70 |
| Distribution costs      | 20 |
| Administrative expenses | 10 |

Land, which is non-depreciable, is included in the trial balance at a value of \$4,000,000. At 30 June 20X1, a surveyor valued it at \$4,500,000. This revaluation is to be included in the financial statements for the year ended 30 June 20X1.

- It has been decided to write off a receivable of \$55,000. This should be charged to administrative expenses.
- Loan interest has not yet been accounted for.
- The tax charge for the year has been calculated as \$270,000.

**Required:**

**Prepare the statement of profit or loss and other comprehensive income of Boston for the year ended 30 June 20X1 and the statement of financial position as at 30 June 20X1. (15 marks)**