QUESTIONS

MULTIPLE CHOICE QUESTIONS

REGULATORY FRAMEWORK

1 Which of the following explanations of prudence most closely follows that in IASB's Framework for the Preparation and Presentation of Financial Statements?

A The application of a degree of caution in exercising judgement under conditions of uncertainty

B Revenue and profits are not recognised until realised, and provision is made for all known liabilities

C All legislation and accounting standards have been complied with

D Understatement of assets or gains and overstatement of liabilities or losses

2 The accounting basis or convention which, in times of rising prices, tends to understate asset values and overstate profit is the:

A going concern basis

B prudence convention

C realisation convention

D historical cost convention

DOUBLE ENTRY BOOKKEEPING

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

A Capital and Sales

B Purchases and discounts received

C Motor expenses and Loan account

D Accrued income and accumulated depreciation

4 Andy has started a business and transferred his computer, worth £1,500 into the business.

What are the accounting entries to record this?

A	Dr Capital	Cr Computer equipment
B	Dr Computer equipment	Cr Capital
C	Dr Computer equipment	Cr Drawings
D	Dr Drawings	Cr Computer equipment

5 Sara has the following information regarding her credit sales from the sales day book.

Total sales including sales tax $54,000

Sales excluding sales tax $45,000

Sales tax $9,000

How would she record the entries in the ledger accounts?

A Dr Sales tax $9,000
Dr Sales $54,000
Cr Receivables control account $45,000

B Dr Receivables control account $54,000
Dr Sales tax $9,000
Cr Sales $45,000

C Dr Sales tax $54,000
Dr Sales £45,000
Cr Receivables control account $9,000

D Dr Receivables control account $54,000
Cr Sales tax $9,000
Cr Sales $45,000

6 The correct entry for recording discounts given to customers, in the main ledger is:

A	Dr Discounts allowed	Cr Receivables control account
B	Dr Receivables control account	Cr Discounts allowed
C	Dr Receivables control account	Cr Discounts received
D	Dr Discounts received	Cr Receivables control account

7 Farah started the month with an overdrawn balance of $1,750 per the bank statement. What is the balance per the bank account after the following transactions in November?

1 Farah withdraws $225 per month to cover living expenses.

2 A settlement discount of $20 is taken by Farah on a purchase of $650.

3 An amount of $500 is received from a credit customer.

4 Bankings of $1,300 from petty cash.

A $805 credit

B $805 debit

C $2695 credit

D $825 debit

SALES TAX

8 Donna is registered for sales tax. During June, she sells goods with a tax exclusive price of $750 to Kay on credit. As Kay is buying a large quantity of goods, Donna reduces the price by 5%. She also offers a discount of another 2% if Kay pays within 10 days. Kay does not pay within the 10 days.

If sales tax is charged at 20%, what amount should Donna charge on this transaction?

A $142.50

B $150.00

C $ 147.15

D $139.65

9 At 1 March 20X5 Lauren owed the tax authorities $27,338. During the month of March, she recorded the following transactions:

- Sales of $750,000 inclusive of 20% sales tax.
- Purchases of $450,000 exclusive of sales tax.

What is the balance on Lauren's sales tax account at the end of March?

A $60,000

B $62,338

C $35,000

D $7,662

10 If sales (including sales tax) amounted to $26,612.50, and purchases (excluding sales tax) amounted to $15,000, the balance on the sales tax account, assuming all items are subject to tax at 20%, would be:

A $1,435.42

B $2,822.50

C $2,322.50

D $3,887.08

11 In the quarter ended 30 June 20X2, Chandler had taxable sales, net of sales tax, of $90,000 and taxable purchases, net of sales tax, of $72,000.

If the rate of sales tax is 10%, how much sales tax is due?

A $3,000

B $10,800

C $1,800

D $7,200

12 A summary of the transactions of Bilko, who is registered for sales tax at 10%, shows the following for the month of January 20X9.

- Outputs $60,000 (exclusive of tax)
- Inputs $40,500 (inclusive of tax)

At the beginning of the period Bilko owed $3,500 to the tax authorities, and during the period he has paid $2,200 to them.

At the end of the period the amount owing to the tax authorities is:

A $3,618

B $3,186

C $5,450

D $3,250

INVENTORY

13 The closing inventory of Epsilon amounted to $284,000 at 30 September 20X4, the statement of financial position date. This total includes two inventory lines about which the inventory taker is uncertain.

(1) 500 items which had cost $15 each and which were included at $7,500. These items were found to have been defective at the statement of financial position date. Remedial work after the statement of financial position date cost $1,800 and they were then sold for $20 each. Selling expenses were $400.

(2) 100 items which had cost $10 each. After the statement of financial position date they were sold for $8 each, with selling expenses of $150.

What figure should appear in Epsilon's statement of financial position for inventory?

A $283,650

B $283,800

C $292,150

D $283,950

14 According to IAS 2 *Inventories*, which of the following costs should be included in valuing the inventories of a manufacturing company?

(1) Carriage inwards

(2) Carriage outwards

(3) Depreciation of factory plant

(4) General administrative overheads

A All four items

B (1), (2) and (4) only

C (2) and (3) only

D (1) and (3) only

15 On 31 December 20X3 the inventory of V was completely destroyed by fire.

The following information is available:

(1)	Inventory at 1 December 20X3 at cost	$28,400
(2)	Purchases for December 20X3	$49,600
(3)	Sales for December 20X3	$64,800
(4)	Standard gross profit percentage on sales revenue	30%

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

A $45,360

B $32,640

C $40,971

D $19,440

16 MJ sell three products – Small, Medium and Large. The following information was available at the year end:

	Small	*Medium*	*Large*
	$ per unit	$ per unit	$ per unit
Original cost	5	10	15
Estimated selling price	8	13	18
Selling and distribution costs	2	4	6
	units	units	units
Units in inventory	250	100	150

The value of inventory at the year end should be:

A $4,500

B $3,950

C $4,200

D $2,700

NON-CURRENT ASSETS

17 **A non-current asset was disposed of for $2,200 during the last accounting year. It had been purchased exactly three years earlier for $5,000, with an expected residual value of $500, and had been depreciated using the reducing balance basis, at 20% per annum.**

What was the profit or loss on disposal?

A $360 loss

B $150 loss

C $104 loss

D $200 profit

18 **Beta purchased some plant and equipment on 1 July 20X3 for $40,000. The scrap value of the plant in ten years' time was estimated to be $4,000. Beta's policy is to charge depreciation on the straight line basis, with a proportionate charge in the year of acquisition.**

What should be the depreciation charge for the plant in Beta's accounting period of twelve months to 30 September 20X3?

A $720

B $600

C $900

D $675

19 **A car was purchased by T for $12,000 on 1 April 20X1 and has been depreciated at 20% each year straight line, assuming no residual value.**

The accounting policy is to charge a full year's depreciation in the year of purchase and no depreciation in the year of sale. The car was traded in for a replacement vehicle on 1 August 20X4 for an agreed trade-in value of $5,000.

What was the profit or loss on the disposal of the vehicle for the year ended 31 December 20X4?

A Loss $2,200

B Loss $1,400

C Loss $200

D Profit $200

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

Plant and machinery – cost

20X1	$	*20X2*	$
1 October: Balance	381,200	1 June: Disposal account – cost of asset sold	36,000
1 December: Cash – addition	18,000	30 September: Balance	363,200
	399,200		399,200

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

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

A $74,440

B $84,040

C $72,640

D $76,840

21 Bianca bought an asset on 1st January 20X6 for $335,000. She has depreciated it at 25% using the straight line method. On 1st January 20X9, Bianca revalued the asset to $450,000.

What double entry should Bianca post to record the revaluation?

A	Dr Non-current assets cost	$115,000	Cr Revaluation reserve	$366,250
	Dr Accumulated depreciation	$251,250		
B	Dr Non-current assets cost	$450,000	Cr Revaluation reserve	$701,250
	Dr Accumulated depreciation	$251,250		
C	Dr Revaluation reserve	$586,250	Cr Non-current assets cost	$335,000
			Cr Accumulated depreciation	$251,250
D	Dr Revaluation reserve	$450,000	Cr Non-current assets cost	$335,000
			Cr Accumulated depreciation	$115,000

ACCRUALS AND PREPAYMENTS

22 In the year to 31 December 20X8 H had cash receipts in respect of rental income of $49,200. The amounts of rent received in advance and due in arrears were as follows:

	31 Dec 20X8	*31 Dec 20X7*
	$	$
Rent received in advance	2,400	2,600
Rent due in arrears	1,800	1,400

What figure for rental income should be recorded in the statement of profit or loss for the year ended 31 December 20X8?

A $48,600

B $49,000

C $49,400

D $49,800

23 Rent paid on 1 October 20X2 for the year to 30 September 20X3 was $12,000, and rent paid on 1 October 20X3 for the year to 30 September 20X4 was $16,000.

What figure for rent expense should be shown in the statement of profit or loss for the year ended 31 December 20X3?

A $12,000

B $16,000

C $13,000

D $15,000

24 A company has sublet part of its offices and in the year ended 30 November 20X3 the rent receivable was:

Until 30 June 20X3	$8,400 per year
From 1 July 20X3	$12,000 per year

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

What amounts should appear in the company's financial statements for the year ended 30 November 20X3?

	Statement of profit or loss 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

25 A business compiling its accounts for the year to 31 January each year pays rent quarterly in advance on 1 January, 1 April, 1 July and 1 October each year.

After remaining unchanged for some years, the rent was increased from $24,000 per year to $30,000 per year as from 1 July 20X3.

Which of the following figures is the rent expense which should appear in the statement of profit or loss for the year ended 31 January 20X4?

A $27,500

B $29,500

C $28,000

D $29,000

RECEIVABLES

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

20X3		$	20X3		$
1 Jan	Balance	284,680	31 Dec	Cash received from credit customers	179,790
31 Dec	Credit sales	189,120			
	Discounts allowed	3,660		Contras *	800
	Irrecoverable debts written off	1,800			
	Sales returns	4,920		Balance	303,590
		484,180			484,180

* = Contras against amounts owing by company in payables ledger

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

A $290,150

B $286,430

C $282,830

D $284,430

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

Receivables ledger control account

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

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

A $395,200

B $304,300

C $307,100

D $309,500

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

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

What is the charge in the statement of profit or loss for the year ended 30 September 20X3 in respect of the total of Irrecoverable debts and the allowance for receivables?

A $42,000

B $33,925

C $70,500

D $32,500

29 The allowance for receivables in the accounts of B at 31 October 20X1 was $9,000. During the year ended 31 October 20X2, Irrecoverable debts of $5,000 were written off.

Receivables balances at 31 October 20X2 were $120,000 and, based on past experience, the company wishes to set the allowance at 5% of receivables.

What is the total charge for Irrecoverable debts and the allowance for receivables in the statement of profit or loss for the year ended 31 October 20X2?

A $2,000

B $3,000

C $5,000

D $8,000

PAYABLES

30 Ally's payables ledger control account has a balance carried down at 31 October 20X8 of $36,900 debit.

During October, credit purchases were $74,800, payments made to suppliers were $68,900, purchase returns were $4,700 and contra's with the receivables ledger control account were $520.

The opening balance was:

A $54,020

B $36,220

C $52,980

D $34,240

31 During an accounting period, the entries in a payables ledger control account were:

Purchases	$215,000
Bank	$235,000
Returns	$2,200
Contra receivables ledger account	$3,000
Debit balances	$800
Balance b/d	$65,000

What was the balance on the payables ledger control account at the end of the accounting period?

A $79,000

B $76,000

C $39,000

D $43,400

32 Which of the following best describes the entries that are made using the purchase day book totals at the end of each month?

A Debit purchases with total net purchases, credit payables ledger control with total gross purchases and debit sales tax account with total sales tax

B Debit purchases with total gross purchases, credit payables ledger control with total net purchases and credit sales tax account with total sales tax

C Debit payables ledger control with total net purchases, debit sales tax account with total sales tax and credit purchases with total gross purchases

D Debit payables ledger control with total gross purchases, credit purchases with total net purchases and credit sales tax account with total sales tax

CAPITAL STRUCTURE

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

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

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

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

	Ordinary share capital	*Share premium account*
	$	$
A	450,000	25,000
B	225,000	250,000
C	225,000	325,000
D	212,500	262,500

34 The correct ledger entries needed to record the issue of 200,000 $1 shares at a premium of 30c, and paid for by cheque, in full, would be:

A	Debit share capital account	$200,000
	Credit share premium account	$60,000
	Credit bank account	$140,000
B	Debit bank account	$260,000
	Credit share capital account	$200,000
	Credit share premium account	$60,000
C	Debit share capital account	$200,000
	Debit share premium account	$60,000
	Credit bank account	$260,000
D	Debit bank account	$200,000
	Debit share premium account	$60,000
	Credit share capital account	$260,000

35 At 1 November 20X6, Ollie, a limited liability company, was structured as follows:

	$
Ordinary shares of 50c	100,000
Share premium	30,000

On 10 January 20X7, in order to raise finance for expansion, there was a 1 for 4 rights issue at $1.20. The issue was fully taken up.

What is the balance on the share premium account after the above transaction?

A $10,000

B $65,000

C $20,000

D $35,000

36 Holly, a limited liability company, has an under provision of $4,300 on its tax liability account at 31 October 20X8 before accounting for that year's tax charge.

It estimates tax on profits for the year to be $69,780.

What amounts should be shown in the financial statements for the year ended 31 October 20X8 in respect of tax?

	Statement of profit or loss	*Statement of financial position*
A	$69,780 tax charge	$74,080 tax payable
B	$69,780 tax charge	$64,480 tax payable
C	$74,080 tax charge	$69,780 tax payable
D	$64,480 tax charge	$69,780 tax payable

BANK RECONCILIATIONS

37 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 the date of the bank statement.

(2) A cheque from a customer which was dishonoured.

(3) An error by the bank.

(4) Bank charges.

(5) Deposits credited after the date of the bank statement.

(6) Standing order payment entered in the bank statement.

A (2), (3), (4) and (6) only

B (1), (2), (5) and (6) only

C (2), (4) and (6) only

D (1), (3) and (5) only

38 The following bank reconciliation statement has been prepared for Omega by a junior clerk:

	$
Overdraft per bank statement	68,100
Add: Deposits not credited	141,200
	209,300
Less: Outstanding cheques	41,800
Overdraft per cash book	167,500

Which of the following should be the correct balance per the cash book?

A $167,500 overdrawn as stated

B $31,300 overdrawn

C $31,300 cash at bank

D $114,900 overdrawn

39 The following differences have been identified when comparing the cash book with the bank statements of a business:

(i) Bank interest received $40, had not been entered in the cashbook

(ii) A BACS receipt of $6,200 and $460 from two customers has not been entered in the cashbook

(iii) A receipt for $650 has been recorded in the cashbook as $750

(iv) Cheques drawn for $3,940 entered in the cashbook are not showing on the bank statement.

Which of the following need to be adjusted in the cash book?

A (i) and (ii) only

B (iv) only

C (I), (ii), (iii)

D All of the above

40 The bank statement has been compared with the cash book and the following differences identified:

1 Cheques totalling £1,629 paid into the bank at the end of the month are not showing on the bank statement.

2 Bank interest paid of £106 was not entered in the cash book.

3 A cheque for £350 written on 2 June has been incorrectly entered in the cash book at 2 May

4 A receipt from a customer of £1,645 has cleared the bank but has not been entered in the cash book.

Which of the following need to be adjusted in the cash book?

A 2, 3 and 4

B 1 only

C 1 and 2

D All of the above

THE TRIAL BALANCE AND ERRORS

41 A trial balance has been extracted and a suspense account opened. One error relates to the mis-posting of an amount of $200, being discounts received from suppliers. This was recorded on the wrong side of the discounts account.

What will be the correcting journal entry?

A Debit Discounts account $200, Credit Suspense account $200

B Debit Suspense account $200, Credit Discounts account $200

C Debit Discounts account $400, Credit Suspense account $400

D Debit Suspense account $400, Credit Discounts account $400

42 Collin has extracted the following balances from the ledger accounts for his business:

	$
Plant and machinery	95,000
Property	135,000
Inventory	6,400
Payables	3,600
Receivables	2,850
Bank overdraft	970
Loan	45,000
Capital	100,000
Drawings	32,000
Sales	362,000
Purchases	156,000
Purchase returns	2,200
Discounts allowed	?
Discounts received	3,500
Sundry expenses	82,500

He has forgotten to extract the balance from the discounts allowed account. What is the balance?

A $4,020

B $7,520

C $5,580

D $3,120

43 Lizzie has recorded a banks payment of £880 for repairs to the company van. The correct entry was made to the bank account but no other entries were made. What would be the journal to correct this error?

A	Dr Van account	Cr Repairs account
B	Dr Repairs account	Cr Bank account
C	Dr Repairs account	Cr Suspense account
D	Dr Repairs account	Cr Van account

44 Dizzie recorded an amount of £3,175 for rent and rates. Both the rent and rates account and the bank account were debited. What would be the journal to correct this error?

A	Dr Suspense \$3,175	Cr Bank \$3,175
B	Dr Suspense \$6,350	Cr Bank \$6,350
C	Dr Bank \$3,175	Cr Rent and rates \$3,175
D	Dr Rent and rates \$6,350	Cr Bank \$6,350

45 Weedens trial balance at 31 October 20X9 does not agree, with the credit side totalling \$1,610 less than the debit side. During November, the following errors were discovered:

- The debit side of the purchases account for October had been overcast by \$150.
- Rent payable of \$240 had been debited to the rent receivable account.
- The allowance for receivables, which increased by \$240, had been recorded in the allowance for receivables account as a decrease.

Following the correction of these errors, the balance on the suspense account would be:

A \$260

B \$740

C \$980

D \$320

PREPARING BASIC FINANCIAL STATEMENTS

46 A business has compiled the following information for the year ended 31 October 20X2:

	$
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

47 From the following information calculate the value of purchases:

	$
Opening payables	142,600
Cash paid to suppliers	542,300
Discounts received	13,200
Goods returned	27,500
Closing payables	137,800

A $302,600

B $506,400

C $523,200

D $578,200

48 The following information is relevant to Wimbledon:

	$
Opening inventory	13,500
Closing inventory	18,160
Purchases	299,000
Expenses	114,400
Carriage in	3,500
Carriage out	7,700
Depreciation	40,000

What is the cost of sales?

A $ 297,840

B $ 294,340

C $ 298,540

D $ 302,040

INCOMPLETE RECORDS

49 Luke sells office equipment. He buys a photocopier for £900.

(a) What would the selling price be, excluding sales tax, if a 40% mark-up was applied?

£

(b) What would the selling price be, excluding sales tax, if the sales margin was 40%?

£

50 You are given the following information about a sole trader called Chiron as at 31 January 20X5:

The value of assets and liabilities were

- Non-current assets at cost £10,000
- Trade receivables £2,000
- Loan £7,500
- Closing capital (at 31 January 20X5) £3,500

There were no other assets or liabilities

(a) Calculate the amount of accumulated depreciation at the year end 31 January 20X5

£

(b) Chiron sells goods at a mark up of 25%. What would be the gross profit on a sales price of £11,000?

£

51 You are given the following information about a sole trader called Percy as at 31 March 20X2:

The value of assets and liabilities were

- Non-current assets at carrying value £14,000
- Bank £2,500
- Trade payables £10,300
- Opening capital (at 1 April 20X1) £3,700
- Drawings for the year £1,500

There were no other assets or liabilities.

(a) Calculate the profit for the year ended 31 March 20X2.

£

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

	$
Opening inventory	75,000
Closing inventory	86,000
Purchases	840,000
Gross profit margin	30%

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

A $580,300

B $255,300

C $1,106,300

D $248,700

53 You are given the following incomplete and incorrect extract from the statement of profit or loss of a company that trades at a mark up of 25% on cost:

	$	$
Sales		185,250
Less: Cost of goods sold		
Opening inventory	15,785	
Purchases	147,058	
Closing inventory	X	
		(X)
Gross profit		X

Having discovered that the sales figure should have been $195,230 and that carriage inwards of $1,500 and sales returns of $1,230 have been omitted, the closing inventory should be:

A $38,800

B $6,143

C $46,305

D $9,143

GROUP ACCOUNTS

Data for Questions

Pike acquired 75% of the ordinary share capital of Neal on 1 January 20X9 when Neal had retained earnings of $1,000,000. Also on 1 January 20X9, Pike purchased a 30% interest in the ordinary share capital of Whittington when Whittington had retained earnings of $296,000. It is Pike's policy to calculate and account for goodwill using the full goodwill method. At the date of acquisition of Neal, the fair value of the non-controlling interest in Neal was $500,000. The summarised statements of financial position for each company for the year ended 31 December 20X9 were as follows:

	Pike	*Neal*	*Whittington*
	$000	$000	$000
Non-current assets			
Property plant and equipment	1,918	1,960	1,680
Investment in Neal	2,610	–	–
Investment in Whittington	448	–	–
	4,976	**1,960**	**1,680**
Current assets			
Inventory	760	1,280	380
Receivables	380	620	200
Cash	70	116	92
Total assets	**6,186**	**3,976**	**2,352**
Equity and liabilities			
$1 ordinary shares	2,240	1,000	1,120
Retained earnings	2,946	1,884	896
	5,186	**2,884**	**2,016**
Current liabilities			
Payables	800	960	272
Taxation	200	132	64
	6,186	**3,976**	**2,352**

An impairment test at the year-end identified that goodwill for Neal was unimpaired.

54 What is the total tangible non-current assets amount to be shown in the consolidated statement of financial position?

A $3,878,000

B $5,558,000

C $4,382,000

D $4,326,000

55 What is the amount to be shown in the consolidated statement of financial position for the investment in the associate?

A $448,000

B $180,000

C $628,000

D $604,800

56 What is the goodwill amount to be shown in the consolidated statement of financial position?

A $Nil

B $1,110,000

C $1,610,000

D $610,000

57 What is the total assets amount to be shown in the consolidated statement of financial position?

A $8,214,000

B $8,842,000

C $7,732,000

D $8,662,000

58 What is the total group retained earnings amount to be shown in the consolidated statement of financial position?

A $3,789,000

B $3,609,000

C $2,946,000

D $3,740,800

STATEMENTS OF CASH FLOWS

59 In relation to statements of cash flows, which, if any, of the following statements are correct?

1 The direct method of calculating net cash from operating activities leads to a different figure from that produced by the indirect method, but this is balanced elsewhere in the cash flow statement.

2 A company making high profits must necessarily have a net cash inflow from operating activities.

3 Profits and losses on disposals of non-current assets appear as items under cash flows from investing activities in the cash flow statement or a note to it.

A Statement 1 only

B Statement 2 only

C Statement 3 only

D None of the statements

60 The profits of GL were $63,400. This was after charging depreciation of $2,700.

During the year, receivables decreased by $600, inventories increased by $2,500 and trade payables increased by $900. Non-current asset purchases during the year amounted to $17,300 and there was a loss on disposal of non-current assets of $3,000.

What was the increase in cash balances during the year?

A $40,800

B $46,800

C $50,800

D $52,800

61 Which of the following is not shown in the statement of cash flows?

A Cash flows from investing activities

B Cash flows from financing activities

C Cash flows from profits of the business

D Cash flows from operating activities

62 A draft statement of cash flows contains the following:

	$m
Profit before tax	279
Proceeds from a disposal of a NCA	80
Decrease in inventories	(26)
Increase in receivables	65
Increase in payables	15
Net cash inflow from operating activities	413

Which of the following corrections needs to be made to the calculations?

1 Proceeds from a disposal of a NCA needs to be removed from this section.

2 Decrease in inventories should be added, not deducted.

3 Increase in receivables should be deducted, not added.

4 Increase in payables should be added, not deducted.

A 1,2 and 3

B 1 and 4

C 1 only

D 2 and 3

63 Logic is producing its statement of cash flows for the year ended 31 December 20X8. The accountant has identified the following balances in the financial statements:

	$
Loans redeemed	82,000
Dividends paid	185,000
Increase in share capital	55,000
Bonus issue made	25,000

What is the net cash flow from investing activities?

A ($133,000)

B ($212,000)

C ($187,000)

D $80,000

INTERPRETATION OF FINANCIAL STATEMENTS

64 A company's capital employed at 31 December 20X2 is as follows:

	$m
Ordinary share capital	380
Retained earnings	120
	500
8% Loan notes	100
	600

The company's statement of profit or loss the year ended 31 December 20X2 is as follows:

	$m
Operating profit	40
Interest paid	(8)
	32
Taxation	(10)
	22

Dividends declared in the year were $10 million, leaving a retained profit was $12 million.

What is the return on equity shareholders' capital employed, using closing capital figures?

A 4.4%

B 2.4%

C 3.7%

D 5.8%

65 A company has the following current assets and liabilities at 31 October 20X8:

		$000
Current assets:	Inventory	970
	Receivables	380
	Bank	40
		1,390
Current liabilities:	Payables	420

When measured against accepted 'norms', the company can be said to have:

A a high current ratio and an ideal acid test ratio

B an ideal current ratio and a low acid test ratio

C a high current ratio and a low acid test ratio

D ideal current and acid test ratios

66 A business has the following capital and long-term liabilities:

	31.10.X8	*31.10.X9*
	$m	$m
12% loan notes	20	40
Issued share capital	15	30
Share premium	3	18
Retained profits	22	12

At 31 October 20X9, its gearing ratio, compared to that at 31 October 20X8, has:

A risen, resulting in greater risk for shareholders

B risen, resulting in greater security for shareholders

C fallen, resulting in greater security for shareholders

D remained the same

67 The annual sales revenue of an enterprise is $235,000 including sales tax at 17.5 per cent. Half of the sales are on credit terms; half are cash sales. The receivables in the statement of financial position are $23,500.

What is the average receivables collection period (to the nearest day)?

A 37 days

B 43 days

C 73 days

D 86 days

68 The draft statement of financial position of B at 31 March 20X3 is set out below.

	$000	$000
Non-current assets		450
Current assets		
Inventory	65	
Receivables	110	
Prepayments	30	
		205
Total assets		655
Capital and reserves		
Issued capital		400
Retained earnings		100
		500
Non-current liabilities		
Loan		75
Current liabilities		
Payables	30	
Short-term borrowings (note 1)	50	
		80
		655

Note 1: The short-term borrowings were raised on 30 September 20X2.

What is the gearing of the company?

A 13 per cent

B 16 per cent

C 20 per cent

D 24 per cent

69 An enterprise has the following trading account for the year ending 31 May 20X8:

	$	$
Sales revenue		45,000
Opening inventory	4,000	
Purchases	26,500	
	30,500	
Less: Closing inventory	(6,000)	
		24,500
Gross profit		20,500

Its inventory turnover rate for the year is:

A 4.9 times

B 5.3 times

C 7.5 times

D 9 times

70 The gearing ratio is often calculated as:

A Long-term loans as a percentage of total share capital and reserves

B Current and long-term debt as a percentage of total assets less current liabilities

C Total share capital and reserves as a percentage of long-term loans

D Total share capital and reserves as a percentage of total equity plus total liabilities

RECORDING, HANDLING AND SUMMARISING ACCOUNTING DATA

BOOKKEEPING

71 JANE GRIGSON

Jane Grigson is a sole trader who keeps her own accounting records. She records invoices sent out to customers in a sales journal, any returns from customers in a returns inwards book and cash transactions in cash received and cash paid books.

Below are the entries in Jane's books of prime entry for the week commencing 8 June 20X2.

Sales Journal

Date	*Customer*	*Total*
		$
8 June	PK	423
9 June	HS	1,410
9 June	RD Contractors	893
12 June	HS	940
		$3,666

Returns Journal

Date	*Customer*	*Total*
		$
12 June	PK	141

Cash received book

Date	*Narrative*	*Total*	*Discounts Allowed*	*Receivables Ledger*	*Other*
		$	$	$	$
8 June	Cash sale	250			250
9 June	HS	140	20	140	
10 June	Cash sale	90			90
11 June	RD Contractors	475		475	
11 June	HS	680	48	680	
		1,635	68	1,295	340

Required:

(a) **Post the entries in the journals shown to the relevant accounts in the general ledger and the receivables ledger (do not balance off the accounts); (8 marks)**

(b) **Explain why the discounts allowed column, receivables ledger column and other column do not cross-cast to equal the total column in the cash received book.(2 marks)**

(Total: 10 marks)

72 RBD

The ledger of RBD included the following ledger balances:

		1 June 20X1	*31 May 20X2*
		$	$
Rents receivable:	payments in advance	463	517
Rent payable:	prepayments	1,246	1,509
	accruals	315	382
Payables		5,258	4,720
Allowance for discounts on payables		106	94

During the year ended 31 May 20X2 the following transactions had been carried out:

	$
Rents received by cheque	4,058
Rent paid by cheque	10,296
Accounts payable paid by cheque	75,181
Discounts received from payables	1,043
Purchases on credit	to be derived

Required:

Post and balance the appropriate accounts for the year ended 31 May 20X2, deriving the transfer entries to the statement of profit or loss where applicable. (10 marks)

73 MICHAEL ROBERTSON

Michael Robertson is a sole trader whose accounts you have prepared for the last two years.

Michael has recently attended a two day course entitled 'Finance for non-accountants' where he began to learn the fundamentals of double entry bookkeeping as well as to gain a greater understanding of his financial statements.

Since his return from this course Michael has spent some time looking at last year's accounts and he is rather confused about some areas.

Michael's queries are as follows:

(1) "On the course that I have just attended two types of expenditure were mentioned, capital expenditure and revenue expenditure. If revenue is income how can it also be used to describe a type of expenditure?"

(2) "Looking at the trial balance I am concerned that trade payables, which are bad news, and profit, which is good news, are both credit balances. How can this be so?"

(3) "I notice that some of my expense accounts have opening balances on them, some debits and some credits. Surely these should have been written off to profit or loss last year so that the account can be started afresh this year."

(4) "One of the credit entries in the statement of profit or loss is entitled 'Allowance for receivables'. This must surely be a mistake as credits in the statement of profit or loss are income or profits."

(5) "I have come across entries in both customer and supplier accounts called contras. What are these, expense or income?"

Required:

Answer each of these questions in terms that Michael will be able to understand. (10 marks)

ERROR CORRECTION AND SUSPENSE ACCOUNTS

74 UPRIGHT

The draft final accounts of Upright for the year ended 31 October 20X5 show a net profit of $48,200.

The list of account balances still has a difference for which a suspense account has been opened. The suspense account appears in Upright's statement of financial position as a debit balance of $1,175.

In the course of subsequent checking, the following errors and omissions were found:

(i) At 1 November 20X4 insurance of $1,305 has been prepaid, but the figure had not been brought down on the insurance account as an opening balance.

(ii) A vehicle held as a non-current asset, which had originally cost $22,000, was sold for $6,000. At 1 November 20X4, depreciation of $17,600 had been charged on the vehicle. The $6,000 proceeds of sale had been credited to the revenue account, and no other entries had been made.

(iii) Depreciation on vehicles had been calculated at 20% (straight line basis) on the balance on the vehicles cost account. The charge for the year now needs to be adjusted for the effect of item (ii) above.

(iv) At 31 October 20X5, insurance of $1,500 paid in advance had not been allowed for in the insurance account.

(v) The credit side of the rent receivable account had been undercast by $400.

(vi) A credit purchase of $360 had been correctly entered into the purchases day book (list of purchase invoices) but had been entered as $630 on the credit side of the supplier's account in the accounts payable ledger. Upright does not maintain an accounts payable ledger control account in the general ledger.

When these errors had been corrected, the suspense account balanced.

Required:

(a) Prepare a statement showing the effect on Upright's profit of the correction of these errors. (12 marks)

(b) Show the suspense account as it would appear in Upright's records. (6 marks)

(Total: 18 marks)

75 VB

VB, a chemical company, extracted a trial balance from its ledgers on 30 April 20X0 and found that the sum of the debit balances did not equal the sum of the credit balances. A suspense account was opened and used to record the difference. VB does not use control accounts for its customer and supplier accounts.

The company carried out an investigation into the cause of the difference and found the following:

(1) Cash sales of $246 had been debited to the sales returns account and the cash book.

(2) An invoice to a customer for $1,249 had been posted to the customer's account as $1,294.

(3) Bank charges of $37 had not been entered in the cash book.

(4) A transposition error occurred such that an additional $45 had been included in the sum posted to the purchases account from a supplier's invoice.

(5) A contra entry of $129 had been debited to the customer account and credited to the supplier account.

(6) An invoice for rent for the six month period ending 30 September 20X0 amounting to $13,500 had not been entered in the ledgers and remained unpaid on 30 April 20X0.

(7) A carriage invoice of $52 had been debited to carriage outwards but it related to the purchase of goods from a supplier of the company.

(8) A irrecoverable of $40 which should have been written off had been forgotten and remained as a balance on the customer's account.

Required:

Show the journal entries necessary to correct each of the above (including a narrative).
(10 marks)

76 YTZ

When the trial balance of YTZ was extracted on 30 June 20X2 it showed the following totals:

	Dr	*Cr*
	$	$
	103,457	102,113

At the time a suspense account was opened to record the difference but investigation has now followed and the following facts have emerged:

(1) An invoice for travel expenses of $132 was entered in the travel expenses account as $123, although correctly entered in the creditor's account.

(2) The returns outwards book was undercast on one page by $100.

(3) An electricity bill for $154 that had not been recorded or accrued for was discovered.

(4) Discounts received of $1,870 had not been entered in the payables ledger control account.

(5) The bank statement that has recently been received showed an amount of interest on the overdraft of $28 which has not been recorded in the ledgers.

(6) A small item of machinery costing $1,450 was charged to the repairs account. Depreciation is charged on machinery at the rate of 20% per annum on cost.

(7) Discounts allowed of $30 were not recorded in the cash received book.

(8) A settlement by contra entry of $3,200 was only recorded in the payables ledger control account.

(9) Bank charges of $23 had been correctly entered in the expense account but not in the cash book.

Required:

(a) Clear the suspense account balance by correcting each of the errors detailed above; (5 marks)

(b) Prepare a statement of adjusted profit showing the original profit of $97,499 and the net profit after correcting the items above. (5 marks)

(Total: 10 marks)

77 WT

The trial balance for WT was extracted at 30 June 20X2. After preparation of the draft statement of profit or loss, it was found that the debit balances did not equal the credit balances and a suspense account was set up until the differences could be investigated.

Since that date a number of errors have been found in the ledgers and a number of items are still to be accounted for:

(1) A piece of machinery was purchased on credit at the end of June 20X2 for $2,000 but no details have yet been entered into the ledger accounts. Machinery is depreciated at 20% on cost with a full year's depreciation in the year of purchase.

(2) A vehicle used in the business was disposed of during June for $1,400. It originally cost $8,000 and the depreciation accumulated up to the date of sale was $5,000. The only entries to have been made regarding this disposal were to debit the bank account and credit the revenue account with the sale proceeds.

(3) During June $200 was received from an old customer of WT. All of this customer's debts had been written off in the previous year when his business folded.

(4) It has been discovered that items worth $4,278 have been completely omitted from the closing inventory figure in the accounts.

(5) It has been discovered that rent of $125 that had been prepaid at 30 June 20X1 was not brought down as the opening balance on the rent account.

(6) Purchases on credit totalling $3,261 have been correctly debited to the purchases account, but the credit entry to the payables ledger control account was $3,621.

(7) A standing order for professional fees of $140 in June has been omitted from the cash book as it was only discovered when checking the bank statement.

(8) A cash sale of $175 has been included in the sales account twice.

Required:

Prepare journal entries, with narratives, to correct these errors and omissions. (10 marks)

INVENTORY VALUATION

78 MR G

On 1 January Mr G started a small business buying and selling a special yarn. He invested his savings of $40,000 in the business and, during the next six months, the following transactions occurred:

Yarn purchases			*Yarn sales*		
Date of receipt	*Quantity*	*Total cost*	*Date of despatch*	*Quantity*	*Total value*
	Boxes	*$*		*Boxes*	*$*
13 January	200	7,200	10 February	500	25,000
8 February	400	15,200			
11 March	600	24,000	20 April	600	27,000
12 April	400	14,000			
15 June	500	14,000	25 June	400	15,200

The yarn is stored in premises Mr G has rented and the closing inventory of yarn, counted on 30 June, was 500 boxes.

Required:

Calculate the value of the material issues during the six month period, and the value of the closing inventory at the end of June, using the following methods of pricing:

(a) first-in-first-out; (10 marks)

(b) weighted average (calculation to two decimal places only). (10 marks)

(Total: 20 marks)

RECEIVABLES

79 ALLOWANCE FOR RECEIVABLES

You are given the following balances at 1 January 20X1:

Receivables	$10,000
Allowance for receivables	$400

You ascertain the following information:

	$
Sales for the year 20X1 (all on credit)	100,000
Sales returns for the year 20X1	1,000
Receipts from customers during 20X1	90,000
Irrecoverable debts written off during 20X1	500
Discounts allowed during 20X1	400

At the end of 20X1 the allowance for receivables is required to be the equivalent of 5% of receivables, after making a specific allowance for a debt of $200 from a customer who has gone bankrupt.

	$
Sales for the year 20X2 (90% on credit)	100,000
Sales returns for the year 20X2 (90% relating to credit customers)	2,000
Receipts from credit customers during 20X2	95,000
Receivables balances settled by contra against payable balances during 20X2	3,000
Irrecoverable debts written off during 20X2 (including 50% of the debt due from the customer who had gone bankrupt, the other 50% having been received in cash during 20X2)	1,500
Discounts allowed during 20X2	500

At the end of 20X2 the allowance for receivables is still required to be the equivalent of 5% of the receivables.

Required:

Write up the receivables and allowance for receivables accounts for 20X1 and 20X2, bringing down the balances at the end of each year and showing in those accounts the double entry for each item. **(10 marks)**

APPLICATIONS OF ACCOUNTING CONVENTIONS

80 STATEMENT OF FINANCIAL POSITION VALUES

The managing director of a company has recently returned from a conference on the techniques of business valuation.

She has now realised that the accounts prepared by the company for publication probably understate the value of the company by

(1) the exclusion of goodwill

(2) the valuation of non-current assets at cost, and

(3) the treatment of the costs of research.

She has asked you to draft a report stating why the accounting treatment of these items understates the value of the company.

Required:

Draft an appropriate report, making reference to accounting concepts where applicable.
(10 marks)

81 ACCOUNTING TERMS

Explain clearly the following accounting terms in a manner which an intelligent non-accountant could understand in the context of a profit-orientated organisation:

(a) expense

(b) asset

(c) prudence

(d) objectivity.

(10 marks)

82 MARKETING SERVICES

Your client has received the following invoice, and has come to you for advice.

'From: Marketing Services

Due for our services for the three months 1 October to 31 December 20X2.

	$
Agreed monthly fee for general advice	
three months at $1,000 per month	3,000
Supply of new colour photocopier on 1.10.X2 with	
five year guarantee, for use by your marketing department	10,000
Deposit paid by us on your behalf for television advertising	
time in February 20X3	5,000
Full cost of advertising campaign in newspaper, from	
1 November to 30 November 20X2	50,000

Payable in total by 31.1.X3.'

Required:

Write a letter to your client setting out how each of the four items on the invoice will affect the expenses figure for the accounting year ended 31 December 20X2. You should explain your treatment, and justify it by reference to accounting conventions. (10 marks)

83 CAPITAL MAINTENANCE

Explain the following terms, illustrating your answer, wherever possible, with examples:

(a) capital maintenance;

(b) goodwill;

(c) fair value;

(d) research and development costs.

(10 marks)

PREPARING FINANCIAL STATEMENTS

INCOMPLETE RECORDS

84 ERNIE

Ernie is a building contractor, doing repair work for local householders. His wife keeps some accounting records but not on a double-entry basis.

The assets and liabilities of the business at 30 June 20X7 were as follows:

	$
Assets	
Plant and equipment: cost	12,600
Depreciation to date	5,800
Motor vehicle: cost	9,000
Depreciation to date	6,500
Inventory of materials	14,160
Receivables	9,490
One quarter's rent of premises paid in advance to 30 September 20X7	750
Insurance paid in advance to 31 December 20X7	700
Bank balance	1,860
Cash in hand	230
Liabilities	
Trade payables	3,460
Telephone account payable	210
Electricity payable	180

His cash and bank transactions for the year from 1 July 20X7 to 30 June 20X8 were as follows:

Cash and Bank summary

Receipts	*Cash*	*Bank*	*Payments*	*Cash*	*Bank*
	$	$		$	$
Opening balances	230	1,860	Suppliers		83,990
Receipts from customers	52,640	150,880	Rent of premises		3,600
Loan received		10,000	Insurance (to 31.12.X8)		1,600
Proceeds of sale of vehicle held at beginning of year		3,000	Purchase of plant and equipment		8,400
Cash paid into bank		24,040	Purchase of new vehicle		12,800
Cash withdrawn from bank	48,260		Telephone		860
Closing balance		2,100	Electricity		890
			Wages of repair staff	68,200	
			Miscellaneous expenses		1,280
			Amounts drawn by Ernie for personal use	8,000	29,800
			Refund to customer		400
			Cash paid into bank	24,040	
			Cash withdrawn from bank		48,260
			Closing balance	890	
	101,130	191,880		101,130	191,880

The following further information is available.

(1) Plant and equipment is to be depreciated at 25% per annum on the reducing balance with a full year's charge in the year of purchase.

(2) The new motor vehicle was purchased on 1 January 20X8. Ernie's policy for vehicles is to charge depreciation at 25% per annum on the straight line basis, with a proportionate charge in the year of purchase but none in the year of sale.

(3) The rent of the premises was increased by 20% from 1 October 20X7.

(4) The loan of $10,000 was obtained from Ernie's brother on 1 April 20X8. It carries interest at 10% per annum, payable on 30 September and 31 March.

(5) At 30 June 20X8, Ernie owed the following amounts:

	$
Suppliers	4,090
Telephone	240
Electricity	220
Miscellaneous expenses	490

(6) At 30 June 20X8, amounts due from customers totalled $10,860. Of this amount, Ernie considered that debts totalling $1,280 were irrecoverable and should be written off.

(7) Inventory of materials at 30 June was $12,170.

(8) Ernie agreed to pay his wife $5,000 for her assistance with his office work during the year. This amount was actually paid in August 20X8.

Required:

Prepare Ernie's statement of profit or loss for the year ended 30 June 20X8 and his statement of financial position as at that date. (24 marks)

85 CART

Cart has just completed his first year of trading, for which he did not keep proper accounting records. The following information is available.

(1) A summary of his bank statements reveals:

	Receipts	*Payments*
	$	$
Capital introduced	20,000	
Cash banked	26,250	
Motor vehicle		18,000
Computer		2,000
Telephone		800
Stationery		2,500
Personal expenses		850
Purchases		19,500

(2) He banked his takings periodically after paying for wages of $700 and sundry expenses of $850.

(3) Depreciation is to be provided on the motor vehicle at 20% straight line basis and on the computer at 25% straight line basis.

(4) At 31 December 20X2, other assets and liabilities were as follows:

Inventory	$400
Receivables	$970
Payables	$1,095
Accrual for telephone expense	$40
Cash in hand	$80

(5) Cart has estimated that his gross profit percentage was 30% of sales revenue.

Required:

Prepare the statement of profit or loss for the year ended 31 December 20X2 and the statement of financial position statement of financial position as at that date. All workings must be clearly shown. (10 marks)

COMPANY FINANCIAL STATEMENTS

86 RULERS

On 31 December 20X2 the accounting records of Rulers, a limited liability company, contained the following balances.

		$000
$1 ordinary shares		500
$1 10% irredeemable preference shares		100
Share premium		200
Retained earnings – 1 January 20X2		455
Land		200
Plant and machinery	– cost	550
	– depreciation 1 January 20X2	250
Revenue		3,500
Cost of sales		2,100
Inventory		600
Receivables		550
Bank (debit balance)		350
Operating expenses		400
Management expenses		280
Selling expenses		220
10% Loan notes		100
Payables		200
Irrecoverable debts		5
Allowance for receivables 1 January 20X2		6
Interest received		7
Discounts allowed		8
Ordinary shares dividend		55

The following notes need additionally to be taken into account.

(a) Bank charges $2,000 and a standing order receipt of $50,000 from a customer have been omitted.

(b) The allowance for receivables is required to be the equivalent of 1% of receivables.

(c) Loan note interest needs to be provided for.

(d) The preference dividend was declared in December 20X2.

(e) The ordinary shares dividend of $55,000 was proposed in December 20X1, declared in February 20X2 and paid in March 20X2. A final ordinary dividend of 14c per share is proposed.

(f) Depreciation on plant and machinery is to be allowed at 20% on the reducing balance method. 10% of this depreciation relates to general management and 5% to selling.

(g) The land is to be revalued upwards by $30,000.

(h) A tax provision of $150,000 is required.

Required:

Prepare a statement of profit or loss, a statement of changes in equity and a statement of financial position to comply with the requirements of IAS 1 Presentation of Financial Statements. (20 marks)

(ACCA Accounting Dec 90 adapted)

87 ELLIS ISLAND

The trial balance extract of Ellis Island, a limited liability company, for the year ended 31 December 20X3 was as follows.

	$000	$000
Revenue		1,920
Purchases	1,152	
Advertising expenses	73	
Audit fee	9	
Irrecoverable debt expenses	21	
Inventory at 1 January 20X3	25	
Administration salaries	76	
Sales persons' salaries	44	
Manufacturing wages	87	
Hire of plant	15	
Interim dividend declared and paid	14	
Premises – depreciation expense	33	
Plant – depreciation expense	66	
Motor vehicles – depreciation expense	22	
10% loan notes		200
Loan note interest paid	10	

Additional information:

(i) Inventory as at 31 December 20X3 was valued at $29,000.

(ii) The income tax expense for the year was estimated to be $57,000.

(iii) A final dividend of $28,000 has been proposed but not yet recorded in the accounts.

Required:

Prepare a statement of profit or loss for Ellis Island for the year ended 31 December 20X3, classifying expenses by function (the 'cost of sales' method), which meets the requirements of IAS 1. Show any additional information that must be disclosed.

All workings must be clearly shown. **(15 marks)**

88 MOORFOOT

Moorfoot, a limited liability company, operates a chain of wholesale grocery outlets. Its first account balances at 30 June 20X8 was as follows:

	$000	$000
Revenue		13,600
Purchases	8,100	
Inventory 1 July 20X7	1,530	
Distribution costs	1,460	
Administrative expenses	1,590	
Interest on loan notes	50	
Dividends declared and paid:		
Final for year ended 30 June 20X7	480	
Interim for year ended 30 June 20X8	360	
Land at cost	1,510	
Buildings		
– Cost	8,300	
– Accumulated depreciation at 30 June 20X7		1,020
Warehouse and office equipment		
– Cost	1,800	
– Accumulated depreciation at 30 June 20X7		290
Motor vehicles		
– Cost	1,680	
– Accumulated depreciation at 30 June 20X7		620
Trade receivables	810	
Allowance for receivables		18
Cash at bank	140	
Trade payables		820
10% loan notes (issued 20W5 and to be redeemed 20Y0)		1,000
Called up share capital – Ordinary shares of 25c each		1,200
Share premium account		2,470
Retained earnings 30 June 20X7		6,772
	27,810	27,810

The following additional information is available:

(1) Closing inventory was $1,660,000.

(2) Trade balances totalling $6,000 are to be written off and the allowance for receivables increased to $30,000. It is the company's practice to include the charge for Irrecoverable debts and the allowance for receivables in administrative expenses in the statement of profit or loss.

(3) Accruals and prepayments at the year-end were:

	Prepayments	*Accruals*
	$000	$000
Distribution costs	60	120
Administrative expenses	70	190
Interest on loan notes	–	50

(4) In early July 20X8 the company received invoices for credit purchases totalling $18,000 for goods delivered before 30 June. These invoices have not been included in the accounts payable at 30 June 20X8.

It was also found that credit sales invoices totalling $7,000 for goods delivered to customers before 30 June 20X8 had mistakenly been dated in July 20X8 and thus excluded from sales for the year and from accounts receivable at the year end.

The goods received had been included in the year-end inventory figure given at (1) above, and the goods sold had been excluded from it. No adjustment to the inventory figure is therefore required.

(5) Depreciation should be provided as follows:

Land	Nil
Buildings	2 per cent per year on cost
Warehouse and office equipment	15 per cent per year on cost
Motor vehicles	25 per cent per year on cost

All depreciation is to be divided equally between distribution costs and administrative expenses.

Required:

Prepare the company's statement of profit or loss for the year ended 30 June 20X8, and statement of financial position as at that date, complying as far as possible with the requirements of IAS 1 Presentation of Financial Statements. Ignore taxation. Notes to the financial statements are not required. (24 marks)

89 LOMOND

Lomond, a limited liability company, is engaged in a number of research and development projects. Its accounting policy as regards research and development complies with the requirements of IAS 38 Intangible assets. At 30 June 20X8, the following information is available:

Project A Development completed 30 June 20X5. Total expenditure $200,000, being amortised over five years on the straight line basis in accordance with the company's standard policy. The balance on the project account at 30 June 20X7 was $120,000.

Project B A development project commenced 1 July 20X5. Expenditure in the years ended 30 June 20X6 and 30 June 20X7 totalled $175,000, which was recognised as an asset at 30 June 20X7. During the year ended 30 June 20X8, it became clear that a competitor had launched a superior product and the project was abandoned. Further development expenditure in the year ended 30 June 20X8 amounted to $55,000.

Project C Development commenced 1 October 20X6 and not yet completed. Expenditure to date:

Year ended	30 June 20X7:	$85,000
Year ended	30 June 20X8:	$170,000

All expenditure on Project C meets the criteria for capitalisation in IAS 38.

Project D In addition, research project D commenced on 1 July 20X7. Expenditure to date (all research):

Year ended 30 June 20X8: $80,000

Required:

(a) State the conditions which must be met if development expenditure is to be recognised as an intangible asset. (6 marks)

(b) Calculate the amounts which should appear in the company's statement of profit or loss statement and statement of financial position for research and development for the year ended 30 June 20X8. (7 marks)

(c) Show the notes which IAS 38 requires in the financial statements for the year giving supporting figures for the items in the statement of profit or loss and statement of financial position. (7 marks)

(Total: 20 marks)

90 IAS 10 EVENTS AFTER THE REPORTING PERIOD

IAS 10 *Events after the reporting period* defines the treatment to be given to events arising after the reporting date but before the financial statements are authorised for issue outside the enterprise.

Required:

(a) How does IAS 10 distinguish between events after the reporting period which should be adjusted in financial statements and those which should be disclosed by note only? (4 marks)

(b) Consider each of the following four events after the reporting date.

(i) The company made an issue of 100,000 shares which raised $180,000 shortly after the statement of financial position date.

(ii) Judgement was issued shortly after the reporting date in respect of a legal action brought against the company for breach of contract. As a result the company was ordered to pay costs and damages totalling $50,000. No provision had been made for this possible expense. The breach of contract occurred before the statement of financial position date.

(iii) Inventory items included in the accounts at cost $28,000 were subsequently sold for $18,000.

(iv) A factory in use at the reporting date and valued at $250,000 was completely destroyed by fire. Only half of the value was covered by insurance. The insurance company has agreed to pay $125,000 under the company's policy.

If you think the event requires adjustment, show exactly how items in the accounts should be changed to allow for the event.

If you think the event does not require adjustment, write a suitable disclosure note, including such details as you think fit. (16 marks)

(Total: 20 marks)

CONSOLIDATED ACCOUNTS

91 PIXIE AND DIXIE

On 1 October 20X9, Pixie acquired 37,500 ordinary shares in Dixie. At the date of acquisition, the retained earnings of Dixie amounted to $30,000. The acquisition of shares was financed by the immediate payment of $10,000 cash together with the issue by Pixie of one share for each Dixie share acquired. At 1 October 20X9, the fair value of a Pixie share was $2. At 31 December 20X9, only the payment of cash had been accounted for.

At the date of acquisition, the fair value of the non-controlling interest in Dixie was $20,000.

The statements of financial position of the two companies at 31 December 20X9 were as follows:

	Pixie	*Dixie*
	$	$
Non-current assets	210,000	110,600
Current assets	113,100	43,400
Investment in Dixie	10,000	
	333,100	154,000
Ordinary share capital @ $1	100,000	50,000
Retained earnings	157,000	38,000
Sundry payables	76,100	66,000
	333,100	154,000

Required:

Prepare the consolidated statement of financial position of Pixie and its subsidiary as at 31 December 20X9. (15 marks)

INTERPRETING/USING FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS

92 SH

You are presented with the following information relating to SH, a limited liability company:

Statement of profit or loss for the year ended June 20X6

	$000
Gross profit	980
Trading expenses	475
Depreciation	255
Net profit	250
Dividends declared and paid during the year	80

Statement of financial position at 30 June 20X6

	20X5		*20X6*	
	$000	$000	$000	$000
Non-current assets at cost	3,000		3,500	
Less: Accumulated depreciation	2,100		2,300	
Net book value		900		1,200
Current assets				
Inventories	825		1,175	
Receivables	5,200		5,065	
Bank and cash	2,350		2,160	
		8,375		8,400
		9,275		9,600
Capital and reserves				
Ordinary shares of $1 each		2,800		3,200
Share premium		–		400
Retained earnings		1,400		1,570
		4,200		5,170
Current liabilities				
Payables		5,075		4,430
		9,275		9,600

During the year ended 30 June 20X6, non-current assets which had cost $230,000 were sold for $145,000. The loss on this disposal has been included in trading expenses in the statement of profit or loss.

Required:

Produce a statement of cash flows using the indirect method of presentation for the year ended 30 June 20X6. (15 marks)

93 AMS

AMS, a limited liability company, made a gross profit of $239,000 in the year to 31 August 20X8. Expenses amounted to $159,000 which included interest of $30,000 payable on a long-term loan, depreciation on plant of $50,000, and depreciation on premises of $25,000. Income tax in profit or loss was $10,000 and dividends paid in the year were $45,000.

The statements of financial position of AMS at 31 August 20X8 and 20X7 were as follows:

	20X8		*20X7*	
	$000	$000	$000	$000
Non-current assets				
Premises		1,200		1,170
Plant and machinery		800		700
		2,000		1,870
Current assets				
Inventory	450		550	
Receivables	700		680	
Bank and cash	300	1,450	–	1,230
		3,450		3,100
Capital and reserves				
Ordinary shares of $1 each		1,800		1,300
Share premium		400		300
Retained earnings		392		367
		2,592		1,967
Non-current liabilities				
Loan notes		200		400
Current liabilities				
Payables	648		681	
Income tax	10		12	
Bank overdraft	–	658	40	733
		3,450		3,100

During the year ended 31 August 20X8, plant which had cost $85,000 was sold at a loss of $10,000. The sale proceeds were $50,000. The loss was recognised in profit or loss as part of expenses $159,000.

Required:

Prepare a statement of cash flows for the year ended 31 August 20X8, using the indirect method of presentation. **(15 marks)**

94 ADDAX

The following balances appeared in the statement of financial position of Addax, a limited liability company, at 31 March 20X2.

	$
Plant and equipment – cost	840,000
Accumulated depreciation	370,000

In the year ended 31 March 20X3 the following transactions took place:

(1) Plant which had cost $100,000 with a written down value of $40,000 was sold for $45,000 on 10 December.

(2) New plant was purchased for $180,000 on 1 October 20X2.

It is the policy of the company to charge depreciation at 10% per year on the straight line basis with a proportionate charge in the year of acquisition and no charge in the year of sale. None of the plant was over ten years old at 31 March 20X2.

Required:

(a) Prepare ledger accounts recording the above transactions. A cash account is NOT required. (5 marks)

(b) List the items which should appear in Addax's cash flow statement for the year ended 31 March 20X3 based on these transactions and using the indirect method, including the headings under which they should appear.

***Note:* The headings from IAS 7 are to be used. (4 marks)**

(Total: 9 marks)

RATIO ANALYSIS

95 MBC

The following figures have been extracted from the published accounts of MBC, a limited liability company, at 31 October 20X5.

	$m
Ordinary share capital	30
Share premium	3
Reserves	5
	38
6% loan notes	10
	48

The net profit (after tax of $1m) for the year to 31 October 20X5, was $4m and dividends paid amounted to $0.5m. The company is considering raising a further $10m in the next financial year to finance research and development.

Required:

(a) State the formula for, and calculate, the company's gearing ratio at 31 October 20X5. (2 marks)

(b) State the formula for, and calculate, the company's return on capital employed (ROCE) at 31 October 20X5. (3 marks)

(c) Discuss the different effects on gearing and ROCE of raising the additional $10m by the issue of shares or by the issue of loan notes. (5 marks)

(Total: 10 marks)

96 PETER JACKSON

Peter Jackson is a sole trader who has recently prepared his accounts for the year ended 31 May 20X2. Peter also prepared some ratios and statistics in order to analyse those accounts.

Unfortunately Peter has now mislaid the accounts and all that is remaining is the schedule of ratios.

Gross profit mark-up on cost	50%
Net profit/capital employed	30%
Net profit margin	10% of revenue
Opening inventory at selling price	73 days, based on revenue
Closing inventory at selling price	109.5 days, based on revenue
Current assets: current liabilities	2.9:1
Receivables payment period	45 days
Payables payment period	60 days

Peter can remember that his revenue for the year totalled $300,000.

Required:

Prepare Peter's statement of profit or loss for the year ended 31 May 20X2 and his statement of financial position at that date in as much detail as is possible from the above information. (15 marks)

COMPREHENSIVE EXAMPLE

97 TYR

TYR, a limited liability company, produced the following trial balance at 31 October 20X7:

	Dr	*Cr*
	$000	$000
Share capital		1,000
Reserves		425
12% Loan notes, repayable 20X0		250
Land at valuation	495	
Premises at cost	350	
– depreciation to 1 November 20X6		20
Plant and machinery at cost	220	
– depreciation to 1 November 20X6		30
Patents and trade marks	200	
Inventory at 1 November 20X6	210	
Receivables	875	
Cash in hand	12	
Payables		318
Bank		85
Administration expenses	264	
Selling and distribution expenses	292	
Dividends paid	20	
Loan note interest	15	
Revenue		2,569
Purchases	1,745	
Carriage inwards	15	
Carriage outwards	18	
Returns outwards		34
	4,731	4,731

The following additional information at 31 October 20X7 is available:

(1) A physical inventory check reveals inventory at cost of $194,000.

(2) Prepaid administration expenses amount to $12,000 and prepaid selling and delivery expenses amount to $28,000. Accrued administration expenses amount to $17,000.

(3) During October 20X7 goods were sold on a 'sale or return' basis, with the final date for return being 25 November. The sale has been recorded as normal in the sales journal and customers' accounts and the goods have been excluded from the inventory count.

The goods cost $7,000 and had a selling price of $12,000.

(4) The land is to be revalued at $550,000.

(5) The share capital account comprises 200,000 5% irredeemable preference shares of $1 each with the balance made up of 50c ordinary shares.

(6) The reserves account comprises of share premium of \$100,000, revaluation reserve of \$135,000 with the balance representing retained earnings.

(7) The premises are to be depreciated at 4% per annum straight line.

The plant machinery is to be depreciated at 10% per annum straight line.

(8) Income tax of \$40,000 is to be provided for the year.

(9) The dividends account represents payment in respect of the current year of a half-year's preference dividend and an interim ordinary dividend. A final dividend of 5c per share is proposed for the current year.

Required:

(a) Prepare a statement of profit or loss for the year ended 31 October 20X7. (10 marks)

(b) Prepare a statement of financial position at 31 October 20X7. (10 marks)

(c) Given the following ratios for the previous year, calculate the comparable ratios for the current year and comment on your results. Suggest reasons for any changes in the ratios between the two years.

(i)	**Gross profit mark up**	**50%**	
(ii)	**Net profit percentage**	**3% (using net profit before tax)**	
(iii)	**Current ratio**	**2.4:1**	
(iv)	**Acid test ratio**	**1.8:1**	**(10 marks)**

(Total: 30 marks)