

ACCA REVISION MOCK

Financial Accounting

June 2014

Time allowed 2 hours

This paper is divided into two sections:

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

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

Do NOT open this paper until instructed by the supervisor.

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

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Paper F3 and FFA

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

- 1** The following is an extract from the equity section of the statement of financial position of Danny, a limited liability company, as at 31 December 20X0.

	\$
Share capital (\$1 shares)	100,000
Share premium	50,000

During the year ended 31 December 20X1, Danny issues 100,000 \$1 ordinary shares for \$3 each.

What will be the balance on the share premium account as at 31 December 20X1?

- A \$200,000
- B \$250,000
- C \$350,000
- D \$300,000

(2 marks)

- 2** Which of the following errors would result in a trial balance imbalance?

- A The discounts allowed balance was listed as a credit on the trial balance
- B Dividends paid were posted to sundry expenses
- C A contra settlement was recorded in the receivables and payables ledgers but not in the control accounts
- D Capital expenditure was posted to repairs

(2 marks)

- 3** A business paid insurance premiums of \$10,400 during the year ended 31 March 20X7. At 1 April 20X6 there was an insurance prepayment of \$800 and at 31 March 20X7 there was a prepayment of \$920.

What is the insurance expense for the year ended 31 March 20X7?

- A \$8,680
- B \$10,280
- C \$10,400
- D \$10,520

(2 marks)

- 4 At 30 June 20X1, a business writes off two debts of \$1,300 and \$2,150 respectively. It also requires an allowance for receivables of \$6,631. The balance on this allowance at 1 July 20X0 was \$8,540.**

What is the irrecoverable debt expense for the year ended 30 June 20X1?

- A \$1,541
- B \$1,909
- C \$3,450
- D \$5,359

(2 marks)

- 5 A sole-trader purchased a computer for \$500 for long-term use. They incorrectly posted the following double-entry:**

Dr Repairs expense	\$500
Cr Bank	\$500

What type of error is this?

- A Extraction error
- B Error of omission
- C Error of commission
- D Error of principle

(2 marks)

- 6 Which of the following statements in relation to bank reconciliations is true?**

- A Uncleared lodgements are deducted from the balance on the bank statement
- B Dishonoured cheques are adjusted for by debiting the cash book
- C Unrecorded direct credits are adjusted for by debiting the cash book
- D Bank errors are adjusted for in the cash book

(2 marks)

- 7 SlowMo, a limited liability company, bought a new building on 1 January 20X1 for \$300,000. It was decided to depreciate this over fifty years on a straight line basis.**

On 31 December 20X8, the building is revalued to \$750,000.

What is the revaluation gain that will be recorded in other comprehensive income?

- A \$450,000
- B \$456,000
- C \$498,000
- D \$492,000

(2 marks)

8 A business makes all of its sales on credit.

At 1 January 20X1, there are receivables brought forward from the previous year of \$40,000. During 20X1, cash of \$38,000 is received from customers, Irrecoverable debts of \$500 are written off, and discounts allowed total \$700. Receivables at 31 December 20X1 were \$43,000.

What is the value of sales made during 20X1?

- A \$42,200
- B \$41,200
- C \$43,800
- D \$39,800

(2 marks)

9 Jane's bank statement shows an overdrawn balance of \$410. This does not agree to the cash book. The following reconciling differences are noted:

- (i) There are un-presented cheques of \$300
- (ii) The bank debited \$1,000 from Jane's account instead of from Jim's account.
- (iii) Jane has made no accounting entries for bank charges of \$70.

What is the balance on the cash book once it has been corrected?

- A \$1,710 Cr
- B \$290 Dr
- C \$290 Cr
- D \$1,110 Dr

(2 marks)

10 Which of the following statements is true?

- A The trial balance is a book of prime entry
- B All sales are recorded in the sales day book
- C Prompt payment discounts are recorded in the cash book
- D Purchase returns are recorded in the journal

(2 marks)

- 11 A sales-tax registered business makes sales of \$2,000 (exclusive of sales tax) and buys goods for \$600 (inclusive of sales tax).**

Sales tax is 20%.

What will be the balance on their sales tax ledger account?

- A \$300 Cr
- B \$300 Dr
- C \$280 Cr
- D \$280 Dr

(2 marks)

- 12 At 31 December 20X1, a business has an item of inventory which cost \$100 to manufacture. Due to damage, the business will need to spend \$50 to repair the item. Once repaired, the item could be sold for \$120.**

Per IAS2, what should be the value of this item of inventory in the statement of financial position?

- A \$100
- B \$150
- C \$120
- D \$70

(2 marks)

- 13 Which of the following statements is true?**

- A Accrued income is a liability
- B Accrued income is an asset
- C Prepayments are a liability
- D Accruals are an asset

(2 marks)

- 14 A company is being sued for damages by one of its customers. Legal advisers believe that there is a 40% chance that the company will lose and have to pay damages of \$500,000.**

Which of the following is the correct accounting treatment?

- A The issue is ignored in the financial statements
- B The issue and estimated damages are disclosed in the financial statements
- C A provision is required for \$500,000
- D A provision is required for \$200,000

(2 marks)

15 A sole trader has not yet accounted for a discount allowed of \$50. When it posts the correct double entry, which of the following is true?

- A Gross profit and net profit will increase by \$50
- B Gross profit and net profit will decrease by \$50
- C Gross profit will be unaffected but net profit will increase by \$50
- D Gross profit will be unaffected but net profit will decrease by \$50

(2 marks)

16 A business buys an item of machinery for long-term use. Which of the following is not capital expenditure?

- A The purchase price of \$1,000
- B Delivery fees of \$125
- C \$350 spent on training employees to use the machine
- D \$500 incurred testing the machine

(2 marks)

17 A trial balance is made up of a list of debit balances and credit balances. Which of the following statements is correct?

- A A balanced trial balance proves that no accounting errors have been made
- B Assets are represented by debit balances
- C Equity is represented by debit balances
- D Income is represented by debit balances

(2 marks)

18 Extracts from the statement of profit or loss of a company for the year to 31 December 20X1 are provided below:

	\$
Revenue	1,430,000
Cost of sales	(542,000)
Operating profit	256,000

What is the gross profit margin?

- A 38%
- B 47%
- C 62%
- D 18%

(2 marks)

- 19 The following is an extract from the statement of financial position of GaGa (a limited liability company) as at 31 December 20X0:**

	\$
Ordinary share capital (50c shares)	100,000

No new shares were issued during the year-ended 31 December 20X1.

On 31 January 20X1, GaGa paid a dividend to its ordinary share holders of 25c per share.

On 31 December 20X1, GaGa proposed to pay its ordinary shareholders a dividend of 40c per share.

How much should GaGa have charged against retained earnings in respect of dividends in the year-ended 31 December 20X1?

- A \$50,000
- B \$130,000
- C \$25,000
- D \$65,000

(2 marks)

- 20 During the year ended 31 December 20X1, Poker, a limited liability company, paid its prior year tax bill of \$103,000. Poker had only provided \$100,000 in its prior-year financial statements in respect of tax.**

Poker estimates that its tax bill for the profits earned in the year ended 31 December 20X1 is \$150,000.

What is the tax expense in Poker's statement of profit or loss for the year ended 31 December 20X1?

- A \$153,000
- B \$150,000
- C \$147,000
- D \$253,000

(2 marks)

- 21 When the individual accounts in Debbie's receivables ledger are added up, they total \$301,450.**

What will be the balance on the receivables ledger after correcting the following errors?

- (i) The total of the sales day book was under-cast by \$5,000.
- (ii) A discount allowed of \$300 was recorded in the receivables control account but not in the receivables ledger.

- A \$301,150
- B \$306,150
- C \$306,450
- D \$306,750

(2 marks)

22 The receivables collection period at Pop has increased from 35 to 46. Which of the following is not a valid explanation for this increase?

- A Credit terms offered to customers have been extended
- B There are several irrecoverable debts that have yet to be written off
- C Pop has reduced the number of employees working in credit control
- D Pop increased the prompt payment discount that they offer

(2 marks)

23 A business buys a car on 1 January 20X0 for \$5,000. It depreciates cars straight line at a rate of 25% per year.

The business sells the car on 31 December 20X2 for \$500.

What is the profit or (loss) on disposal that will be recorded in the statement of profit or loss?

- A (\$4,500)
- B (\$750)
- C (\$2,500)
- D \$500

(2 marks)

24 A company has a year-end of 31 December 20X1.

At 1 January 20X1, opening inventory was \$10,000. The company purchased \$80,000 during of goods during the year. Closing inventory as at 31 December 20X1 was \$6,000.

If the company makes a mark up of 30%, what is its revenue for the year ended 31 December 20X1?

- A \$109,200
- B \$124,800
- C \$120,000
- D \$58,600

(2 marks)

- 25 Ryan uses the first in first out method of inventory valuation. At 1 May 20X9 he had 24 units in inventory at a total value of \$270. The following inventory purchases were made in May 20X9:**

Date

12 May 25 units purchased for \$11.50 each
 23 May 40 units purchased for \$11.40 each

On 25 May, Ryan sold 45 units.

What is the value of Ryan's inventory at 31 May 20X9?

- A \$508
 B \$506
 C \$504
 D \$502 **(2 marks)**

- 26 A company has a year end of 31 December 20X1. Which of the following is not an adjusting event?**

- A A major credit customer goes bankrupt on 3 January 20X2
 B Inventory which cost \$3,000 to purchase was sold for \$2,000 on 5 January 20X2
 C A fire destroyed the company's warehouse on 6 January 20X2
 D On 10 January 20X2, a regulator announces that the company must pay \$10,000 in fines as a result of health and safety regulation breaches that occurred during the year ended 31 December 20X1

(2 marks)

- 27 A business sublets surplus office space. In the year ended 30 June 20X5 cash received from tenants was \$83,700.**

Rent in arrears and in advance at the beginning and end of the accounting period were as follows:

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

What figure for rental income should be included in the statement of profit or loss for the year ended 30 June 20X5?

- A \$84,000
 B \$83,400
 C \$80,600
 D \$86,800 **(2 marks)**

- 28 On 1 January 20X1, a company begins the development of a new computer game console. Development costs are \$1m per month.**

On 1 October 20X1, the company directors firmly believe that the company has sufficient knowledge and resources to finish the product. Market research demonstrates that there will be a high demand for this new console.

How much can be capitalised in the year ended 31 December 20X1 in respect of development activities?

- A \$Nil
- B \$12m
- C \$3m
- D \$2m

(2 marks)

- 29 Per the IASB Framework, an asset can be defined as:**

- A An obligation of the entity that arose from a past event
- B An obligation of the entity that will arise from a future event
- C A resource controlled by an entity that arose from a past event
- D A resource controlled by an entity that will arise from a future event

(2 marks)

- 30 A business makes a mark-up of 25%. What is the gross profit margin?**

- A 20%
- B 25%
- C 80%
- D 16%

(2 marks)

- 31 In respect of a sales tax registered business, which of the following statements is true?**

- A Sales tax on purchases is an expense in the statement of profit or loss
- B Sales tax is always a liability on the statement of financial position
- C Sales tax is always an asset on the statement of financial position
- D Revenue should be recorded net of sales tax

(2 marks)

- 32 When completing his final accounts, James found that he had overstated a year end accrual.**

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

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

(2 marks)

- 33 In the prior financial year, Peekaboo had a gross profit margin of 9%. In the current financial year, the gross profit margin has increased to 16%.**

Which of the following might explain this movement?

- A The volume of sales has been higher in the current year
- B Prompt payment discounts received have been higher in the current year
- C There have been higher levels of inventory obsolescence in the current year
- D The mix of products sold in the current year has changed

(2 marks)

- 34 Beeb has a draft profit after tax of \$100,000 before accounting for a dividend paid during the year.**

Beeb has share capital of \$50,000 and this is comprised of 50c ordinary shares. The dividend paid was 30c per share.

What will be the revised profit after adjusting for this error?

- A \$100,000
- B \$70,000
- C \$75,000
- D \$85,000

(2 marks)

- 35 Which of the following should not be credited to the receivables control account?**

- A Sales returns
- B Refunds of customer over-payments
- C Contras
- D Irrecoverable debts

(2 marks)

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

- 1 On 1 January 20X1, Peach acquired 75% of the ordinary shares of Satsuma for \$300,000. The statements of financial position for the two companies as at 31 December 20X1 are presented below:

	<i>Peach</i> \$	<i>Satsuma</i> \$
Assets		
Non-current assets		
Property, plant and equipment	500,000	300,000
Investments	300,000	–
Current assets		
Inventories	90,000	60,000
Trade and other receivables	40,000	100,000
Cash and cash equivalents	12,000	49,000
Total Assets	<u>942,000</u>	<u>509,000</u>
Equity and liabilities		
Equity		
Share capital	100,000	50,000
Retained earnings	477,000	144,000
Non-current liabilities		
Loans	200,000	150,000
Current liabilities		
Trade and other payables	165,000	165,000
Total equity and liabilities	<u>942,000</u>	<u>509,000</u>

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

- On 1 January 20X1, the retained earnings of Satsuma were \$64,000 and the fair value of the non-controlling interest was \$82,000.
- At the acquisition date, the fair value of land owned by Satsuma exceeded its carrying value by \$60,000. This land was still owned at 31 December 20X1.
- During the year, Peach sold goods to Satsuma for \$15,000. The profit on the sale was \$10,000. The sale was made on credit and the invoice has been settled. The goods remain in the inventory of Satsuma at the year end.

Required:

Prepare the consolidated statement of financial position for the Peach group as at 31 December 20X1. (15 marks)

2 The trial balance for Barnaby, a sole trader, as at 30 June 20X4 is presented below:

	<i>Dr</i>	<i>Cr</i>
	\$	\$
Revenue		400,000
Purchases	160,000	
Administrative expenses	90,000	
Distribution expenses	47,000	
Plant and machinery – cost	150,000	
Plant and machinery – accumulated depreciation at 1 July 20X3		55,000
Trade receivables	32,000	
Allowance for receivables – 1 July 20X3		2,000
Inventory – 1 July 20X3	20,000	
Drawings	15,000	
Trade payables		18,000
Capital account – 1 July 20X3		84,000
Cash	45,000	
	<u>559,000</u>	<u>559,000</u>

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

- Inventory at 30 June 20X4 had a cost of \$24,000 and a net realisable value of \$18,000.
- The allowance for receivables should be increased to \$6,000.
- Plant and machinery is depreciated on a reducing balance basis at a rate of 20% per annum. Depreciation should be charged to cost of sales.

Required:

Prepare the statement of profit or loss for the year ended 30 June 20X4 and the statement of financial position of Barnaby as at 30 June 20X4. (15 marks)