

ACCA REVISION MOCK

# Financial Accounting

December 2017

**Time allowed**                      2 hours

This paper is divided into two sections:

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


Section B – BOTH questions are compulsory and MUST be attempted.

**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**

Please use the space provided on the inside cover of the Candidate Answer Booklet to indicate your chosen answer to each multiple choice question.

Each question is worth 2 marks

- 1 The following is an extract from the equity section of the statement of financial position of Ink Co as at 31 December 20X5.

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

During the year ended 31 December 20X1, Ink issued 100,000 \$1 ordinary shares for \$4 each.

**What was the balance on the share premium account as at 31 December 20X1?**

- A \$50,000  
B \$350,000  
C \$450,000  
D \$150,000
- 2 **Which TWO of the following errors would result in a trial balance imbalance?**
- A The discounts received balance was listed as a debit on the trial balance  
B Dividends paid were posted to sundry income  
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
- 3 A business paid insurance premiums of \$12,500 during the year ended 30 June 20X3. At 30 June 20X2 there was an insurance prepayment of \$600 and at 30 June 20X3 there was a prepayment of \$800.

**What was the insurance expense for the year ended 31 March 20X3?**

\$ \_\_\_\_\_

- 4 At 30 September 20X3, a business wrote off two debts of \$750 and \$1,135 respectively. It also required an allowance for receivables of \$6,675. The allowance for receivables balance at 1 October 20X2 was \$7,650.

**What was the irrecoverable debt expense for the year ended 30 September 20X3?**

\$ \_\_\_\_\_

- 5 A sole trader purchased a machine for \$750 for long-term use. He incorrectly posted the following double-entry:

Dr Repairs expense      \$750  
Cr Bank                      \$750

**What type of error is this?**

- A    Extraction error  
B    Error of omission  
C    Error of commission  
D    Error of principle
- 6 **Which of the following statements in relation to bank reconciliations is true?**
- A    Uncleared cheques are added to the balance on the bank statement.  
B    Dishonoured cheques from customers are adjusted for by debiting the cash book.  
C    Unrecorded direct debits are adjusted for by crediting the cash book.  
D    Bank charges on the bank statement but not in the cash book are ignored in the reconciliation.
- 7 Slouch Co bought a new building on 1 January 20X2 for \$400,000. It was decided to depreciate the building over fifty years on a straight line basis with nil estimated residual value. On 31 December 20X9, the building was revalued to \$850,000.

**What was the revaluation surplus that should be recorded in other comprehensive income for the year ended 31 December 20X9?**

\$ \_\_\_\_\_

- 8 A business makes all of its sales on credit.

At 1 January 20X3, there were receivables brought forward from the previous year of \$65,000. During 20X3, cash of \$182,500 was received from customers and irrecoverable debts of \$1,250 were written off. It was also agreed with a credit customer, who was also a supplier, that that an amount of \$1,700 would be offset against the balances due from each other. Receivables at 31 December 20X3 were \$68,500.

**What was the value of sales made during 20X3?**

- A    \$188,950  
B    \$188,200  
C    \$188,000  
D    \$187,250

9 Jake's bank statement shows an overdrawn balance of \$865. This does not agree to the cash book. The following reconciling differences were noted:

- (i) There are unpresented cheques of \$265.
- (ii) The bank debited \$325 from Jake's account instead of from June's account.
- (iii) Jake has made no accounting entries for bank charges of \$35.

**What was the balance on the cash book when errors and omissions have been corrected?**

- A \$805 debit
- B \$805 credit
- C \$770 credit
- D \$770 debit

10 Which of the following statements is not true?

- A The extended trial balance is not a book of prime entry.
- B Only cash purchases are recorded in the purchases day book.
- C Contra entries agreed with credit customers who are also suppliers will affect the individual payables and receivables ledger account balances.
- D Settlement discount received will need to be included as part of a trade payables control account reconciliation.

11 A sales-tax registered business made sales of \$2,500 (exclusive of sales tax) and buys goods for \$3,300 (inclusive of sales tax). Sales tax is 10%.

**What will be the net effect upon the sales tax ledger account balance when these transactions are accounted for?**

- A \$50 Dr
- B \$50 Cr
- C \$80 Cr
- D \$80 Dr

12 At 31 December 20X4, a business had an item of inventory which cost \$300 to manufacture. Due to water damage, the business will need to spend \$75 to repair the item. Following its repair, the item could be sold for \$280.

**At what value should this item of inventory be accounted for in the financial statements at 31 December 20X4?**

- A \$300
- B \$280
- C \$225
- D \$205

- 13 Which of the following statements is true?**
- A The accumulated depreciation balance is a debit balance.
  - B The depreciation expense account balance is a credit balance.
  - C The revaluation surplus account balance is always credit balance.
  - D The revaluation surplus account balance always a debit balance.
- 14** Anchor Co is being sued for compensation by one of its employees as a result of suffering an injury whilst at work. Legal advisers believe that there is a 30% chance that Anchor Co will lose the claim and will have to pay damages of \$250,000.
- Which of the following is the correct accounting treatment to report this situation?**
- 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 \$250,000
  - D A provision is required for \$75,000
- 15 A sole trader has not yet accounted for a discount received of \$150. After the correct accounting entries have been recorded, which of the following statements is true?**
- A Gross profit and net profit will increase by \$150
  - B Gross profit and net profit will decrease by \$150
  - C Gross profit will be unaffected but net profit will increase by \$150
  - D Gross profit will be unaffected but net profit will decrease by \$150
- 16 A business buys an item of property, plant and equipment for use in the business. Which of the following is not capitalised as part of the cost of the asset?**
- A Electrical and fitting work to install the equipment of \$5,000
  - B Delivery fees of \$750
  - C \$1,000 spent on a four-year warranty to ensure that repairs can be carried out quickly and at no extra cost
  - D \$2,500 incurred testing the machine

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

- (1) A balanced trial balance proves that there are no accounting errors within the accounting records.
- (2) Assets are represented by debit balances.
- (3) Expenses are represented by credit balances.
- (4) Liabilities are represented by credit balances.

- A (2) and (4)
- B (4) and (1)
- C (1) and (3)
- D (2) and (3)

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

	\$
Revenue	1,081,250
Cost of sales	(432,500)
Operating profit	78,400

**What is the gross profit margin for the year ended 31 December 20X1?**

- A 7.2%
- B 40%
- C 60%
- D 18.1%

**19** The following is an extract from the statement of financial position of Ga Co as at 30 June 20X4:

Ordinary share capital (50c shares)                      \$200,000

No new shares were issued during the year-ended 30 June 20X4.

On 31 January 20X4, Ga Co paid an interim dividend to its ordinary shareholders of 30c per share. On 31 July 20X4, Ga Co proposed to pay its ordinary shareholders a final dividend of 45c per share.

**How much should Ga Co charge against retained earnings in respect of dividends in the year-ended 30 June 20X4?**

- A \$60,000
- B \$120,000
- C \$90,000
- D \$180,000

- 20** During the year ended 31 July 20X7, Poker Co paid its prior year tax bill of \$170,000. Poker Co had only provided \$160,000 in its prior-year financial statements in respect of tax.

Poker Co estimates that its tax bill for the profits earned in the year ended 31 July 20X7 is \$185,000.

**What is the tax expense in Poker Co's statement of profit or loss for the year ended 31 July 20X7?**

\$ \_\_\_\_\_

- 21** A Co owns 60% of the equity shares of B Co and 40% of the shares of C Co.

**Which of the following statements are true about the relationship between A Co with B Co and C Co?**

- A B Co is an associate of A Co
- B B Co is a subsidiary of A Co
- C C Co is a subsidiary A Co
- D C Co is an associate of A Co

- 22** Pop offers a trade discount of 6% to selected customers. In addition, Pop offers a 5% early settlement discount to all credit customers. Weasel purchased goods from Pop which had a list price of \$2,500 and is eligible to receive the trade discount. Pop does not expect that Weasel will take advantage of the early settlement discount terms.

**What was the total of the sales invoice raised by Pop for the sale to Weasel?**

\$ \_\_\_\_\_

- 23** A business buys a car on 1 January 20X0 for \$5,000. It depreciates cars on a straight line at the 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?**

\$ \_\_\_\_\_ profit (loss) – delete which does not apply

- 24** At 31 March 20X3, Plank Co had a liability outstanding for income tax of \$130,000. In the statement of profit or loss for the year ended 31 March 20X4, Plank Co had an income tax charge of \$145,000, and an income tax liability in the statement of financial position of \$140,000

**What is the cash outflow for income tax for inclusion in the statement of cash flows of Plank Co for the year ended 31 March 20X4?**

\$ \_\_\_\_\_



- 25** Raul uses the first in first out method of inventory valuation. At 1 August 20X5 he had 48 units in inventory at a total value of \$540. The following inventory purchases were made in August 20X5:

*Date*

12 Aug                    50 units purchased for \$11.50 each  
 23 Aug                    80 units purchased for \$11.40 each

On 25 Aug, Raul sold 90 units.

**What is the value of Raul's inventory at 31 August 20X5?**

- A     \$990.00
- B     \$1,012.00
- C     \$1,003.20
- D     \$1,004.00

- 26** Forth Co has a year end of 31 December 20X1. Which of the following are not adjusting events?

- (1) A major credit customer was declared bankrupt on 3 January 20X2.
- (2) Inventory which cost \$3,000 to purchase was sold for \$2,000 on 5 January 20X2.
- (3) A fire destroyed Forth Co's warehouse on 6 January 20X2.
- (4) On 10 January 20X2, Forth Co paid an equity dividend of \$10,000 to its shareholders.

- A     (1) and (3)
- B     (2) and (4)
- C     (1) and (2)
- D     (3) and (4)

- 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

- 28** On 1 January 20X1, Jinx Co commenced development of a new computer game console. Development costs were \$1m per month.

On 1 October 20X1, Jinx Co firmly believes that it 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?**

\$ \_\_\_\_\_

- 29** Based upon the IASB Framework, which one of the following provides the most appropriate definition of an asset?

- 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

- 30** Hatch Co is preparing its statement of cash flows for the year ended 30 April 20X4. During the year, it disposed of a vehicle with a carrying amount of \$5,000 at the date of disposal for proceeds cash proceeds of \$3,000. The vehicle had been purchased at a cost of \$9,000.

**What amounts should be disclosed within the 'Investing Activities' classification of the statement of cash flows in respect of the vehicle disposal?**

- A A loss on disposal of \$2,000 and a cash inflow of sale proceeds of \$3,000
- B A cash inflow of sale proceeds of \$3,000 only
- C A loss on disposal of \$2,000 only
- D No items are relevant for classification as 'Investing Activities'

- 31** With regard to a business registered for sales tax, which of the following statements is true?

- (1) Sales tax is always a liability on the statement of financial position
  - (2) Sales tax is always an asset on the statement of financial position
  - (3) Revenue should be recorded net of sales tax
  - (4) Sales tax on purchases is an expense in the statement of profit or loss
- A (4) only
  - B (2) and (4)
  - C (1) and (3)
  - D (3) only

- 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

- 33 In the prior financial year, Peekaboo Co 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 the movement in the gross profit margin?**

- 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.
- 34 Beeb Co has a draft profit after tax for the year of \$100,000. Beeb Co has share capital of \$50,000 consisting of 50c ordinary shares. A dividend was paid during the year of 30c per share.

**What will be the profit after tax after accounting for this transaction?**

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

- 35 **Which one of the following statements is not true in relation to accounting for subsidiaries and associates in group accounts?**

- A Goodwill is not calculated when an investment in an associate is made.  
B Goodwill is not calculated when an investment in a subsidiary is made.  
C Non-controlling interests are not accounted for when accounting for an investment in an associate.  
D Non-controlling interests are accounted for when accounting for an investment in a subsidiary.

## SECTION B

## BOTH QUESTIONS ARE COMPULSORY AND MUST BE ANSWERED

Please write your answer within the answer booklet in accordance with the detailed instructions provided within each of the questions in this section of the exam paper.

- 1 On 1 January 20X1, Poodle acquired 80% of the ordinary shares of Setter for \$270,000. The statements of financial position for the two entities as at 30 June 20X4 were as follows:

	<i>Poodle</i>	<i>Setter</i>
	\$	\$
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	450,000	321,825
Investments	300,000	–
<b>Current assets</b>		
Inventories	75,000	45,500
Trade and other receivables	32,000	43,175
Cash and cash equivalents	3,000	
<b>Total Assets</b>	<u>860,000</u>	<u>410,500</u>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Issued share capital	100,000	50,000
Share premium	20,000	10,000
Retained earnings	490,000	250,500
<b>Non-current liabilities</b>		
Loans	150,000	17,500
<b>Current liabilities</b>		
Trade and other payables	100,000	71,425
Bank overdraft		11,075
<b>Total equity and liabilities</b>	<u>860,000</u>	<u>410,500</u>

The following information is relevant to the preparation of the consolidated financial statements for the year ended 30 June 20X4:

- On 1 January 20X1, the retained earnings of Setter were \$157,500 and the fair value of the non-controlling interest was \$63,500.
- At the acquisition date, the fair value of land owned by Setter exceeded its carrying amount by \$100,000. This land was still owned by Setter at 30 June 20X4.
- During the year ended 30 June 20X4, Poodle sold goods to Setter for \$20,000 at a mark-up on cost of 25%. All of the goods remain in the inventory of Setter at the year end. The sale was made on credit and payment had not been made by Setter at 30 June 20X4.

**Required:**

In relation to the consolidated statement of financial position of the Poodle group as at 30 June 20X4, calculate the following:

- |                                     |           |
|-------------------------------------|-----------|
| (a) Property plant and equipment    | (2 marks) |
| (b) Goodwill                        | (2 marks) |
| (c) Inventories                     | (2 marks) |
| (d) Receivables                     | (1 mark)  |
| (e) Cash and overdraft balances     | (1 mark)  |
| (f) Share capital and share premium | (1 mark)  |
| (g) Retained earnings               | (2 marks) |
| (h) Non-controlling interest        | (2 marks) |
| (i) Loans                           | (1 mark)  |
| (j) Payables                        | (1 mark)  |

(Total: 15 marks)

2 The trial balance for Buzzard Co as at 30 September 20X6 is presented below:

	<i>Dr</i>	<i>Cr</i>
	\$	\$
Revenue		360,250
Retained earnings		64,000
Purchases	145,380	
Administrative expenses	67,300	
Distribution costs	42,815	
Plant and machinery – cost	199,850	
Plant and machinery – accumulated depreciation at 1 October 20X5		48,000
Trade receivables	47,450	
Allowance for receivables – 1 October 20X5		2,500
Inventory – 1 October 20X5	20,000	
Dividend paid	3,000	
Trade payables		27,795
Issued share capital @ \$1 shares		20,000
Income tax		1,000
Bank overdraft		2,250
	<u>525,795</u>	<u>525,795</u>

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

- Inventory at 30 September 20X6 had a cost of \$23,500. Within this, there were several items which had cost \$5,000 but which could be sold for only \$3,500.
- The allowance for receivables should be increased to \$6,000. The increase should be charged as an administrative cost.
- 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.
- The income tax charge based upon the profit for the year was estimated at \$15,000.

**Required:**

- (a) Prepare the statement of profit or loss of Buzzard Co for the year ended 30 September 20X6. (6.5 marks)
- (b) Prepare the statement of statement of financial position of Buzzard Co as at 30 September 20X6. (8.5 marks)

(Total: 15 marks)