FA and Full Specimen Exam Answers

<table>
<tr><th>Question</th><th>Correct Answer</th><th>Marks</th></tr>
<tr><td>1</td><td>Closing net assets + drawings – capital introduced – opening net assets = net profit.

Re-arranging the equation:
Opening net assets – drawings + capital introduced + net profit = closing net assets</td><td>2</td></tr>
<tr><td>2</td><td>The exact amount of expenditure is reimbursed at intervals to maintain a fixed float</td><td>2</td></tr>
<tr><td>3</td><td>2 and 3 only</td><td>2</td></tr>
<tr><td>4</td><td>331760
<table>
<tr><td></td><td>$</td></tr>
<tr><td>Trade Payables at 1 July 20X5</td><td>60,000</td></tr>
<tr><td>Cash paid to suppliers</td><td>(302,800)</td></tr>
<tr><td>Discounts received</td><td>(2,960)</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Contra between payables and receivables ledger</td><td>(2,000)</td></tr>
<tr><td>Purchases (Balancing Figure)</td><td>331,760</td></tr>
<tr><td>Trade Payables 30 June 20X6</td><td></td></tr>
</table>
OR

Trade Payables
<table>
<tr><td></td><td>$</td><td></td><td>$</td></tr>
<tr><td>Cash Paid</td><td>302,800</td><td>Balance 1 July 20X5</td><td>60,000</td></tr>
<tr><td>Discounts Received</td><td>2,960</td><td></td><td></td></tr>
<tr><td>Contra between payables and receivables ledger</td><td>2,000</td><td>Purchases (Balancing Figure)</td><td>331,760</td></tr>
<tr><td>Trade Payables 30 June 20X6</td><td>84,000</td><td></td><td></td></tr>
<tr><td></td><td><u>391,760</u></td><td></td><td><u>391,760</u></td></tr>
</table>
</td><td>2</td></tr>
<tr><td>5</td><td>A cheque received from a customer was credited to cash and correctly recognised in receivables – the correct entry should have been a debit to cash

Rent received was included in the trial balance as a debit balance – rent received is a credit balance</td><td>2</td></tr>
</table>

<table>
<tr><td>6</td><td>Current assets: $22,240 Current liabilities: $nil
<table>
<tr><td></td><td>Current assets</td><td>Current liabilities</td></tr>
<tr><td></td><td>$</td><td>$</td></tr>
<tr><td>(1) Employee Loan</td><td>12,000</td><td></td></tr>
<tr><td>(1) Loan Interest (12,000 x 2%)</td><td>240</td><td></td></tr>
<tr><td>(2) Prepayment $9,000 x 8/12</td><td>6,000</td><td></td></tr>
<tr><td>(3) Accrued income $4,000</td><td>4,000</td><td></td></tr>
<tr><td></td><td>22,240</td><td>Nil</td></tr>
</table></td><td>2</td></tr>
<tr><td>7</td><td>97,100
<table>
<tr><td></td><td>Current assets</td></tr>
<tr><td></td><td>$</td></tr>
<tr><td>Net profit</td><td>83,600</td></tr>
<tr><td>Add back incorrect expense</td><td>18,000</td></tr>
<tr><td>Less depreciation</td><td></td></tr>
<tr><td>(18,000 x 25%)</td><td>(4,500)</td></tr>
<tr><td>Adjusted net profit</td><td>(97,100)</td></tr>
</table></td><td>2</td></tr>
<tr><td>8</td><td>Xena is suffering from a worsening liquidity position in 20X9 – The current ratio (current assets : current liabilities) has decreased</td><td>2</td></tr>
<tr><td>9</td><td>A statement of cash flows prepared using the direct method produces a different figure to net cash from operating activities from that produced if the indirect method is used – False

Right issues of shares do not feature in a statement of cash flows – False

A surplus on revaluation of a non-current asset will not appear as an item in a statement of cash flows – True

A profit on the sale of a non-current asset will appear as an item under cash flows from investing activities in a statement of cash flows – False

The profit on sale will be deducted from the profit before tax in the operating activities section of the statement of cash flows. The cash proceeds will appear under investing activities.</td><td>2</td></tr>
</table>

<table>
<tr><td>10</td><td>$475,900
<table><tr><td></td><td>$</td></tr><tr><td>Rent received in advance 30 April 20X5</td><td>28,700</td></tr><tr><td>Less: rent in arrears 30 April 20X5</td><td>(21,200)</td></tr><tr><td>Add recent received in year</td><td>481,200</td></tr><tr><td>Less rent received in advance 30 April 20X6</td><td>(31,200)</td></tr><tr><td>Add rent in arrears 30 April 20X6</td><td><u>18,400</u></td></tr><tr><td>Rental income in statement of profit or loss</td><td><u>475,900</u></td></tr></table></td><td>2</td></tr>
<tr><td>11</td><td>A sole trader’s financial statements are private; a company’s financial statements are sent to shareholders and may be publically filed

A sole trader is fully and personally liable for any losses that the business might make</td><td>2</td></tr>
<tr><td>12</td><td>The analysis of financial statements using ratios provides useful information when compared with previous performance or industry averages</td><td>2</td></tr>
<tr><td>13</td><td>$36,750 Dr</td><td>2</td></tr>
<tr><td>14</td><td>The useful lives of intangible assets capitalised in the financial statements

Impairment losses written off intangible assets during the period

These are required by IAS 38® Intangible Assets</td><td>2</td></tr>
<tr><td>15</td><td>2 only

Capitalised development expenditure is amortised over the period it is expected to generate economic benefits.

Research expenditure is always written off as an expense to profit or loss</td><td>2</td></tr>
<tr><td>16</td><td>$6,600
<table><tr><td colspan="4">Electricity Expense</td></tr><tr><td></td><td></td><td></td><td></td></tr><tr><td>Payment brought forward</td><td>550</td><td>P/L a/c (balancing figure)</td><td>6,600</td></tr><tr><td>Cash paid</td><td>5,400</td><td></td><td></td></tr><tr><td>Accrual carried forward</td><td>650</td><td></td><td></td></tr><tr><td></td><td><u>6,600</u></td><td></td><td><u>6,600</u></td></tr></table></td><td>2</td></tr>
</table>

<table>
<tr><td>17</td><td>

22,000

<table>
<tr><td>Irrecoverable debt written off</td><td>37,000 debit</td></tr>
<tr><td>Decrease in allowance for receivables</td><td>15,000 credit</td></tr>
<tr><td>Expense in statement of profit or loss</td><td>22,000 debit</td></tr>
<tr><td>Workings:</td><td></td></tr>
<tr><td>Trade receivables 30 June 20X6 (517,000 – 37,000)</td><td>480,000</td></tr>
<tr><td>Allowance for receivables 5% x 480,000</td><td>24,000</td></tr>
<tr><td>Allowance for receivables at 30 June 20X5</td><td>39,000</td></tr>
<tr><td>Decrease in allowance for receivables</td><td>(15,000)</td></tr>
</table>

</td><td>2</td></tr>
<tr><td>18</td><td>

$437,830

<table>
<tr><td></td><td>$</td></tr>
<tr><td>List of balances on payable ledger</td><td>438,900</td></tr>
<tr><td>(1) Contra</td><td>(980)</td></tr>
<tr><td>(2) Does not affect list of balances</td><td></td></tr>
<tr><td>(3) Error on invoice posting</td><td>(90)</td></tr>
<tr><td>Reconciled list of balances to control account</td><td>437,830</td></tr>
</table>

The reconciled balance is reported in statement of financial position

</td><td>2</td></tr>
<tr><td>19</td><td>

Carriage inwards

Depreciation of factory machinery

</td><td>2</td></tr>
<tr><td>20</td><td>

17060

<table>
<tr><td></td><td>$</td></tr>
<tr><td>Opening inventory</td><td>6,700</td></tr>
<tr><td>Add purchases</td><td>84,000</td></tr>
<tr><td>Less closing inventory</td><td>(5,400)</td></tr>
<tr><td>Cost of sales</td><td>85,300</td></tr>
</table>

Gross profit = 20% x $85,300 = $17,060

</td><td>2</td></tr>
</table>

21	**Ordinary share capital: $225,000** **Share premium account: $250,000** <table><tr><td></td><td></td><td>**Ordinary share capital**</td><td>**Share premium**</td></tr><tr><td></td><td>**No of shares**</td><td>**$**</td><td>**$**</td></tr><tr><td>**At 31 December 20X4**</td><td>**500,000**</td><td>**125,000**</td><td>**100,000**</td></tr><tr><td>**Rights issue**</td><td>**<u>250,000 at 25¢</u>**</td><td>**62,500**</td><td>**At 75¢ 187,500**</td></tr><tr><td></td><td>**750,000**</td><td></td><td></td></tr><tr><td>**Bonus**</td><td>**<u>150,000 at 25¢</u>**</td><td>**37,500**</td><td>**<u>(37,500)</u>**</td></tr><tr><td>**At 31 December 20X5**</td><td>**900,000**</td><td>**<u>225,000</u>**</td><td>**<u>$250,000</u>**</td></tr></table>	2
22	**1 and 3 only** **Amortisation of development costs are expensed to profit or loss**	2
23	**$55,000** <table><tr><td></td><td></td><td>**Depreciation**</td></tr><tr><td></td><td></td><td>**$**</td></tr><tr><td></td><td>**$240,000 x 20% x 3/12**</td><td>**12,000**</td></tr><tr><td>**Disposal**</td><td>**<u>(60,000)</u>**</td><td></td></tr><tr><td></td><td>**$180,000 x 20% x 3/12**</td><td>**9,000**</td></tr><tr><td>**Purchase**</td><td>**<u>160,000</u>**</td><td></td></tr><tr><td></td><td>**$340,000 x 20% x 6/12**</td><td>**34,000**</td></tr><tr><td colspan="2">**Depreciation for year ended 31 December 20X5**</td><td>**55,000**</td></tr></table>	2
24	**24** **Hassan's capital employed =** **<u>Profit before interest and taxation</u>** **Capital employed** **Capital employed = shareholders equity plus non current liabilities** **= <u>$10,200</u>** **$42,500 = 24%**	2

<table>
<tr><td>25</td><td>Sales tax is an expense to the ultimate customer of the goods purchased – True

Sales tax is recorded as income in the accounts of the entity selling the goods- False</td><td>2</td></tr>
<tr><td>26</td><td>1, 2 ,3 and 4

Entries required to correct;
<table>
<tr><td></td><td>$</td><td>$</td></tr>
<tr><td>(1) DR Suspense account</td><td></td><td></td></tr>
<tr><td>CR Ordinary Share Capital</td><td></td><td>3,000</td></tr>
<tr><td colspan="3">Being shortfall in capital recorded</td></tr>
</table>
<table>
<tr><td></td><td>$</td><td>$</td></tr>
<tr><td>(2) DR Planet asset account</td><td>2,800</td><td></td></tr>
<tr><td>DR Planet repairs</td><td>2,800</td><td></td></tr>
<tr><td>CR Suspense</td><td></td><td>5,600</td></tr>
<tr><td colspan="3">Being correction of incorrect posting to incorrect account</td></tr>
</table>
<table>
<tr><td></td><td>$</td><td>$</td></tr>
<tr><td>(3) DR Petty Cash</td><td>500</td><td></td></tr>
<tr><td>CR Suspense</td><td></td><td>500</td></tr>
<tr><td colspan="3">Being correction of omission of Petty cash balance</td></tr>
</table>
<table>
<tr><td></td><td>$</td><td><b>$</td></tr>
<tr><td>(4) DR Suspense</td><td>9,000</td><td></td></tr>
<tr><td>CR Motor Vehicle cost</td><td></td><td>9,000</td></tr>
<tr><td colspan="3">Being correction of error in amount posted on purchase of car</td></tr>
</table>
</td><td>2</td></tr>
<tr><td>27</td><td>Cannon should provide for the expected cost of the claim of $100,000

There is an 80% chance that Cannon will lose the claim – there is therefore an obligation and it is probable they will be required to settle the claim for $100,000</td><td>2</td></tr>
<tr><td>28</td><td>1015
<table>
<tr><td></td><td>$</td></tr>
<tr><td>Computer</td><td>890</td></tr>
<tr><td>Additional memory</td><td>95</td></tr>
<tr><td>Delivery</td><td>10</td></tr>
<tr><td>Installation</td><td>20</td></tr>
<tr><td>Capitalise</td><td>1,015</td></tr>
</table>
</td><td>2</td></tr>
</table>

29

$3,670 balance at bank

	$
Overdraft per bank statement	(3,860)
Less: unpresented cheques	(9,160)
	(13,020)
Add : outstanding lodgements	16,690
Cash at bank	3,670

2

30

Completeness

Neutrality

2

31

$307,100

Receivables ledger control account

	$		$
Opening balance	308,600	Cash received from credit customers	147,200
Credit sales	152,800	Irrecoverable debts written off	4,900
Interest charged on overdue accounts	2,400	Contras against credit balances in payables ledger	4,600
		Closing balance	307,100
	463,800		463,800

2

32

Yes Yes Yes Yes

All of these material events provide evidence of conditions that existed at the end of the reporting period and are therefore adjusting events in accordance with IAS 10 Events after the Reporting Period.

2

33

$188,500

Date of issue and purchase	Quantity units	Valued issues	Cost of issues
Sale 1 November	400	400 at $190	76,000
Sale 15 April	250	250 at $190	47,500
Issued	650		
Opening inventory	700		
Closing inventory	50	50 at $190	9,500
Purchased 1 July	500	500 at $220	110,000
Purchased 1 February	300	300 at $230	69,000
			188,500

2

<table>
<tr><td>34</td><td>32,400
<table>
<tr><td></td><td>Capital</td><td>= Asset - liabilities</td></tr>
<tr><td>At 1 January 20X8</td><td>156,560</td><td>= 569,400 – 412,840</td></tr>
<tr><td>Capital introduced</td><td>65,000</td><td></td></tr>
<tr><td>Drawings ($800 x 12)</td><td>(9,600)</td><td></td></tr>
<tr><td>Profit (balancing figure)</td><td><u>32,400</u></td><td></td></tr>
<tr><td>At 31 December 20X8</td><td>244,360</td><td>= 614,130 – 369,770</td></tr>
</table></td><td>2</td></tr>
<tr><td>35</td><td>Discounts received of $150 was extracted to the debit column of the trial balance.

Discounts received is a credit balance and is an error of commission. The trial balance debits exceed the credits by $300 as there is an incorrect debit of $150 and also an omission on the credit side of $150</td><td>2</td></tr>
</table>

MTQ 36

Task 1 (11 marks)

Consolidated statement of profit or loss for the year ended 31 May 20X6	
	£'000
Revenue	**8,400 + 3,200 – 1,500**
Less : Cost of sales	**4,600 + 1,700 – 1,500 + (30% x 500)**
Gross profit	**5150**
Less: Distribution costs	**2010 (1500+510)**
Administrative costs	**1150 (700+450)**
Profit before tax	**1990**
Less : Tax	**740 (600+140)**
Profit for the year	**1250**
Attributable to:	
Equity owners of Keswick Co	**Group profit for the year – Non-controlling interest**
Non-controlling interest	**80 (400 x 20%)**

Task 2 (4 marks)

Significant influence	**No**
Control	**Yes**
Non-controlling interest	**Yes**
Greater than 50% of the equity shares being held by an investor	**Yes**
100% of the equity shares being held by an investor	**Yes**
Greater than 50% of the preference shares being held by an investor	**No**
50% of all shares and debt being held by an investor	**No**
Greater than 50% of preference shares and debt being held by an investor	**No**

MTQ 37

Task 1 (4 marks)

Buildings at costs	Yes
Buildings accumulated depreciation at 31 October 20X7	No
Plant at cost	Yes
Plant accumulated depreciation at 31 October 20X7	No
Bank balance	Yes
Revenue	No
Net purchases	No
Inventory at 1 November 20X6	No
Cash	Yes
Trade payables	Yes
Trade receivables	Yes
Administrative expenses	No
Allowance for receivables at 1 November 20X6	No
Retained earnings at 1 November 20X6	No
Equity shares, $1	Yes
Share premium account	Yes

Task 2 (3 marks)

<table>
<tr><td>Trade receivable</td><td>No debit or credit</td></tr>
<tr><td>Administrative expenses</td><td>Debit</td></tr>
<tr><td>Allowance for receivables</td><td>Credit</td></tr>
<tr><td>Revenue</td><td>No debit or credit</td></tr>
<tr><td>Profit or loss</td><td>6 thousand
<table>
<tr><td></td><td>$’000</td></tr>
<tr><td>5% x 320</td><td>16</td></tr>
<tr><td>Brought forward</td><td>10</td></tr>
<tr><td>Increase</td><td>6</td></tr>
<tr><td></td><td></td></tr>
</table></td></tr>
</table>

Task 3 (5 marks)

Administrative expenses	**No debit or credit**
Cost of sales	**Debit**
Buildings cost	**No debit or credit**
Plant cost	**No debit or credit**
Buildings accumulated depreciation	**Credit**
Plant accumulated depreciation	**Credit**
Buildings depreciation charge	**37 thousand $(740,000 x 5%)**
Plant depreciation charge	**22 thousand $(220,000 – 110,000) x 20%**

Task 4 (1.5 marks)

<table>
<tr><td>Cost of sales</td><td>1225 thousand
<table>
<tr><td></td><td></td></tr>
<tr><td>Opening inventory</td><td>160,000</td></tr>
<tr><td>Net purchases</td><td>1,140,000</td></tr>
<tr><td>Closing inventory</td><td>(75,000)</td></tr>
<tr><td>Cost of sales</td><td>1,225,000</td></tr>
</table></td></tr>
</table>

Task 5 (1.5 marks)

Debit	**Administrative expenses**
Credit	**Accrual**
Adjustment value	**10 thousand $(15,000 x 2/3)**