## FA and Full Specimen Exam Answers

| Question | Correct Answer |  | Marks |
| :---: | :---: | :---: | :---: |
| 1 | Closing net assets + drawings - capital introduced opening net assets <br> Closing net assets $=$ opening net assets + capital introduced drawings + net profit <br> $\therefore$ Net profit $=$ Closing net assets $\boldsymbol{- c a p i t a l}$ introduced + drawings - opening net assets |  | 2 |
| 2 | The exact amount of expenditure is reimbursed at intervals to maintain a fixed float |  | 2 |
| 3 | 2 and 3 only <br> For a limited company, the owners are limited in their exposure to debt and liability. |  | 2 |
| 4 | \$331,760 |  | 2 |
|  |  | \$ |  |
|  | Payments for cash and credit purchases | 302,800 |  |
|  | Prior year purchases (trade payables) | $(60,000)$ |  |
|  | Cash paid for current year purchases | 242,800 |  |
|  | Unpaid current year purchases (trade payables) | 84,000 |  |
|  | Discounts received deducted from trade payables | 2,960 |  |
|  | Contra deducted from trade payables | 2,000 |  |
|  | Remaining current year credit purchases | 88,960 |  |
|  | Total purchases | 331,760 |  |
| 5 | \$42,594 |  | 2 |
|  |  | \$ |  |
|  | Opening trade payables | 32,978 |  |
|  | Credit purchases | 178,509 |  |
|  | Purchase returns | $(4,945)$ |  |
|  | Payments to suppliers | $(163,948)$ |  |
|  | Closing trade payables | 42,594 |  |



| 8 | Xena is suffering from a worsening liquidity position in 20X9 <br> Worsening liquidity is evidenced by: <br> - Decreased current ratio - comparatively less amounts in current assets against current liabilities. <br> - Increased receivables days - comparatively more time to receive cash from customers. <br> - Decreased payable days - comparatively less time to pay suppliers. <br> - Increased inventories turnover - comparatively more time to sell inventories and, eventually, realise as cash. |  | 2 |
| :---: | :---: | :---: | :---: |
| 9 |  |  | 2 |
|  | 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 <br> Direct and indirect methods produce the same 'cash generated from operations' and, therefore, 'cash from/ used in operating activities'. |  |
|  | Right issues of shares do not feature in a statement of cash flows | False <br> Per IAS ${ }^{\circledR} 33$ Earnings per Share (para 27), a rights issue is an example where "Ordinary shares may be issued ... without a corresponding change in resources". As no cash is received, a rights issue has no impact on cash flows. |  |
|  | A surplus on revaluation of a non-current asset will not appear as an item in a statement of cash flows | True <br> As a non-cash, fair value change, there is no impact on cash flows. |  |
|  | A profit on the sale of a noncurrent asset will appear as an item under cash flows from investing activities in a statement of cash flows | False <br> Although the proceeds have a direct impact on cash flow, the profit/ loss itself is a noncash accounting entry and there is no impact on cash flow. |  |


| 10 | \$475,900 |  | 2 |
| :---: | :---: | :---: | :---: |
|  |  | \$ |  |
|  | Cash receipts from rental of properties | 481,200 |  |
|  | Accrued income relating to prior year | $(21,200)$ |  |
|  | Deferred income relating to next year | $(31,200)$ |  |
|  | Cash receipts from current year rental income | 428,800 |  |
|  | Deferred income from prior year, reversed | 28,700 |  |
|  | Accrued income relating to current year | 18,400 |  |
|  | Remaining rental income for the current year | 47,100 |  |
|  | Total rental income | 475,900 |  |
| 11 | A sole trader's financial statements are private; a company's financial statements are sent to shareholders and may be publicly filed <br> A sole trader is fully and personally liable for any losses that the business might make <br> Regarding the incorrect statements: <br> - All sole traders, partnerships and companies have 'capital' - an irremovable element of the accounting equation. <br> - Revaluations may be carried out by sole traders, partnerships and companies - only companies must apply IFRS ${ }^{\circledR}$ Accounting Standards in doing so. |  | 2 |
|  |  |  |  |
|  |  |  |  |
| 12 | The analysis of financial statements using ratios provides useful information when compared with previous performance or industry averages <br> Regarding the incorrect statements: <br> - Ratio analysis is used by a wide range of stakeholders. <br> - Although financial information has a predictive value (a qualitative characteristic), this does not mean a ratio can determine future results without exception. <br> - Management are one of the stakeholder groups which uses ratio analysis. |  | 2 |
|  |  |  |  |


| 13 | \$36,750 Dr <br> As stated, this 'balance c/f' is carried forward to the next <br> accounting period. Only balances are carried forward to the <br> next financial year. Transactions are transferred to the <br> statement of profit or loss before profit/ loss is then transferred to <br> retained earnings on the statement of financial position. <br> Transactions start at zero in the next financial year. | 2 |
| :--- | :--- | :--- |
| 14 | The useful lives of intangible assets capitalised in the <br> financial statements <br> Impairment losses written off intangible assets during the <br> period | Per IAS 38® Intangible Assets (para 118), "An entity shall <br> disclose the following for each class of intangible assets, <br> distinguishing between internally generated intangible assets <br> and other intangible assets: <br> (a) whether the useful lives are indefinite or finite and, if <br> finite, the useful lives or the amortisation rates used; <br> (b) ... <br> (c) the gross carrying amount and any accumulated <br> amortisation (aggregated with accumulated impairment <br> losses) at the beginning and end of the period". |


| 16 | \$6,600 |  | 2 |
| :---: | :---: | :---: | :---: |
|  |  | \$ |  |
|  | Cash paid in relation to electricity expense | 5,400 |  |
|  | Prepaid expense from prior year, reversed | 550 |  |
|  | Accrued expense for current year | 650 |  |
|  | Total electricity expense | 6,600 |  |
| 17 | \$22,000 |  | 2 |
|  | \begin{tabular}{\|l|r|}
\hline
\end{tabular} |  |  |
|  | Allowance at year end (5\% $\times$ [ $\$ 517 \mathrm{k}-\$ 37 \mathrm{k}]$ ) | 24,000 |  |
|  | Allowance brought forward | $(39,000)$ |  |
|  | Decrease in allowance for irrecoverable debts | $(15,000)$ |  |
|  | Irrecoverable debts write off | 37,000 |  |
|  | Net irrecoverable debt expense | 22,000 |  |
| 18 | \$180,000 |  | 2 |
|  | - ${ }^{\text {a }}$ ( ${ }^{\text {a }}$ |  |  |
|  | Cost at 1 January 20X1 | 200,000 |  |
|  | Accumulated depreciation (4/20 years $\times \$ 200 \mathrm{k}$ ) | $(40,00)$ |  |
|  | Carrying amount at 31 December 20X4 | 160,000 |  |
|  | Fair value at 1 January 20X5 | 340,000 |  |
|  | Revaluation increase | 180,000 |  |
| 19 | Carriage inwards |  | 2 |
|  | Depreciation of factory machinery |  |  |
|  | Per IAS ${ }^{\circledR} 2$ Inventories (para 11), "The costs of purc inventories comprise ... transport, handling and o directly attributable to the acquisition" and (para 12) "T of conversion of inventories include costs directly re units of production, such as direct labour. They also systematic allocation of fixed and variable prod overheads that are incurred in converting materials goods ... such as depreciation and maintenance buildings, equipment and right-of-use assets us production process". | se of r costs he costs d to the clude a ion of finished factory in the |  |
|  | Carriage outwards is not relevant as this relates to goods. General "administrative overheads that do contribute to bringing inventories to their present loc condition" are examples of costs excluded from the inventories (para 16). | sale of t on and st of |  |


| 20 | $\begin{aligned} & \text { Cost of sales } \\ & =\text { Opening inventories + Purchases - Closing inventories } \\ & =\$ 6,700+\$ 84,000-\$ 5,400 \\ & =\$ 85,300 \\ & \text { Gross profit }=(20 \% \div 100 \%) \times \$ 85,300=\$ 17,060 \end{aligned}$ |  |  | 2 |
| :---: | :---: | :---: | :---: | :---: |
| 21 | Ordinary share capital: \$225,000 <br> Share premium account: $\mathbf{\$ 2 5 0 , 0 0 0}$ |  |  | 2 |
|  |  | Share capital | Share premium |  |
|  |  | \$ | \$ |  |
|  | Opening balances | 125,000 | 100,000 |  |
|  | Rights (1/2 x 500k x \$0.25; \$0.75) | 62,500 | 187,500 |  |
|  | Bonus (1/5 x [500k + 250k] x \$0.25) | 37,500 | $(37,500)$ |  |
|  | Closing balances | 225,000 | 250,000 |  |
| 22 | 1 and 3 only |  |  | 2 |
|  | The amortisation of development costs is expensed and is not presented separately in the statement of changes in equity. <br> Amortisation is, effectively, an element within total comprehensive income for the year, reported as a whole amount in the statement of changes in equity. |  |  |  |
| 23 | \$55,000 |  |  | 2 |
|  |  |  | \$ |  |
|  | Opening balance |  | 240,000 |  |
|  | Disposal on 31 March 20X5 (9/12 mo | x \$60k) | $(45,000)$ |  |
|  | Addition on 30 June 20X5 (6/12 month | \$160k) | 80,000 |  |
|  | Cost prorated for additions and dis |  | 275,000 |  |
|  | Depreciation charge (20\% x \$275k) |  | 55,000 |  |
| 24 | 24\% |  |  | 2 |
|  | $\begin{aligned} & \text { Return on capital employed } \\ & =\text { Profit before interest and tax } \div \text { (Equity }+ \text { Non-current liabilities }) \\ & =\$ 10,200 \div(\$ 35,600+\$ 6,900) \\ & =\mathbf{2 4 \%} \end{aligned}$ |  |  |  |


| 25 | Sales tax is an expense to the ultimate consumer of the goods purchased when the ultimate consumer is not registered for sales tax <br> Sales tax is recorded as income in the accounts of the entity selling the goods | True <br> If a seller is not registered for sales tax, all taxable purchases are measured at the gross amount. False <br> Sales tax is collected on behalf of the tax/ revenue authority and, therefore, is a balance on the statement of financial position. <br> If output tax on sales exceeds input tax on purchases, a sales tax payable is due to the authority. <br> Conversely, if input tax exceeds output tax, a sales tax receivable may be presented - this may occur where non-taxable goods are sold but taxable goods are purchased. | 2 |
| :---: | :---: | :---: | :---: |
| 26 | Sales Credit <br>  Sales are a type of income, <br> which is credit in its nature. |  | 2 |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  | Sales returns | Debit |  |
|  |  | A reduction in income must, therefore, be a debit. |  |
|  | Purchases | Debit |  |
|  |  | Purchases are a type of expenditure, which is debit in its nature. |  |
|  | Purchases returns | Credit <br> A reduction in expenditure must, therefore, be a credit. |  |


| 27 | Cannon Co should provide for the expected cost of the claim of \$100,000 <br> Per IAS $37{ }^{\circledR}$ Provisions, Contingent Liabilities and Contingent Asset (para 14), "A provision shall be recognised when: <br> (a) an entity has a present obligation (legal or constructive) as a result of a past event; <br> (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and <br> (c) a reliable estimate can be made of the amount of the obligation". <br> A legal obligation is present via the claim from a supplier and it is most likely that Cannon Co will lose the case. Therefore, the provision should be measured at $\$ 100 \mathrm{k}$, which is assumed to be a reliable estimate. |  | 2 |
| :---: | :---: | :---: | :---: |
| 28 | \$1,015 |  | 2 |
|  |  | \$ |  |
|  | Total cost | 1,222 |  |
|  | Maintenance (expense in profit or loss) | (25) |  |
|  | Sales tax (collected on behalf of authority) | (182) |  |
|  | Capitalised cost | 1,015 |  |
| 29 | \$3,670 cash at bank |  | 2 |
|  |  | \$ |  |
|  | Bank overdraft per bank statement | $(3,860)$ |  |
|  | Outstanding lodgements | 16,690 |  |
|  | Unpresented cheques | $(9,160)$ |  |
|  | Reconciled bank balance | 3,670 |  |


| 30 | Completeness <br> Neutrality <br> Per the IASB ${ }^{\circledR}$ Conceptual Framework (para 1.17), "Accrual accounting depic transactions and other events and circu entity's economic resources and claims those effects occur, even if the resulting payments occur in a different period". It concept <br> "Financial statements are normally prep that the reporting entity is a going conc operation for the foreseeable future. that the entity has neither the intention liquidation or to cease trading" (para 3.9) accounting concept itself. | eporting of <br> a reporting <br> in which <br> and ccounting <br> ssumption continue in ssumed o enter an | 2 |
| :---: | :---: | :---: | :---: |
|  | \$307,100 |  |  |
|  |  | \$ |  |
|  | Opening balance | 308,600 |  |
|  | Credit sales | 152,800 |  |
|  | Interest charged on overdue accounts | 2,400 |  |
|  | Contras | $(4,600)$ |  |
|  | Cash received from credit customers | $(147,200)$ |  |
|  | Irrecoverable debts written off | $(4,900)$ |  |
|  | Closing balance | 307,100 |  |


| 32 | $\|$A valuation of property <br> providing evidence of <br> impairment in value at the <br> reporting date Yes <br> An example of "the receipt of <br> information after the reporting <br> period indicating that an asset <br> was impaired at the end of <br> the reporting period". | 2 |  |
| :--- | :--- | :--- | :--- |
|  | Sale of inventory held at the <br> reporting date for less than <br> cost | Yes <br> An example of "the receipt of <br> information after the reporting <br> period indicating that an asset <br> was impaired at the end of <br> the reporting period". |  |
|  | Discovery of fraud or error <br> affecting the financial <br> statements | Yes | An example of "the discovery <br> of fraud or errors that show <br> that the financial statements <br> are incorrect". |


| 34 | $\begin{aligned} & \$ 32,400 \\ & \text { Closing net assets = opening net assets + capital introduced - } \\ & \text { drawings + net profit } \\ & \therefore \text { Net profit = Closing net assets - capital introduced + drawings } \\ & - \text { opening net assets } \\ & =(\$ 614,130-\$ 369,770)-\$ 65,000+(12 \times \$ 800)-(\$ 569,400- \\ & \$ 412,840) \\ & =\$ 32,400 \end{aligned}$ | 2 |
| :---: | :---: | :---: |
| 35 | A manual journal entry for accrued motor expenses of $\$ 4,139$ was correctly recognised in expenses but the corresponding entry created the suspense account <br> The incorrect manual journal entry for accrued motor expenses was recognised as: <br> being incorrect accounting treatment of accrued motor expenses <br> Regarding the other choices, the omitted/ incorrect manual journal entries were recognised as: <br> - Dr Trade receivables 4,139 <br> Cr Revenue $\quad 4,129$ <br> being omitted credit sales <br> - Dr Prepayments 4,139 <br> Cr Suspense account 4,139 <br> being incorrect accounting treatment of prepaid rent <br> - Dr Wages <br> 1,439 <br> Cr Bank <br> 1,439 <br> being wage payment recognised at incorrect amount | 2 |

## Part 1 of 2 (11 marks)

## Part prompt:

Use the information above to complete the following financial statement:

| Keswick Group |  | \$’000 |
| :--- | ---: | ---: |
| Consolidated statement of profit or loss |  |  |
| For the year ended 31 May 20X6 [ Gap 1] |  |  |
|  |  |  |
| Revenue $(\$ 8,400 \mathrm{k}+\$ 3,200 \mathrm{k}-\$ 1,500 \mathrm{k})$ | [ Gap 2] | 10,100 |
| Cost of sales $(\$ 4,600 \mathrm{k}+\$ 1,700 \mathrm{k}-\$ 1,500 \mathrm{k}+$ <br> $\$ 150 \mathrm{k})$ | [ Gap 3] | $(4,950)$ |
| Gross profit | [ Gap 4] | $\mathbf{5 , 1 5 0}$ |
| Distribution costs $(\$ 1,500 \mathrm{k}+\$ 510 \mathrm{k})$ | [ Gap 5] | $(2,010)$ |
| Administrative expenses $(\$ 700 \mathrm{k}+\$ 450 \mathrm{k})$ | [ Gap 6 ] | $(1,150)$ |
| Profit before tax | [ Gap 7] | $\mathbf{1 , 9 9 0}$ |
| Income tax expense (\$600k + \$140k) | [ Gap 8] | $(740)$ |
| PROFIT FOR THE YEAR | [ Gap 9] | $\mathbf{1 , 2 5 0}$ |
|  |  |  |
| Attributable to: | [ Gap 10 ] | 1,170 |
| Owners of the parent | [ Gap 11] | 80 |
| Non-controlling interests $(20 \% \times \$ 400 \mathrm{k})$ |  | $\mathbf{1 , 2 5 0}$ |

## Working:

Unrealised profit $=30 \% \times(\$ 1,500 \mathrm{k}-\$ 1,000 \mathrm{k})=\mathbf{\$ 1 5 0 k}$

## Part 2 of 2 (4 marks)

## Part prompt:

Does the existence of each of the following factors illustrate the existence of a parent - subsidiary relationship?

$\left.$| Significant influence | No <br> Significant influence is, generally, indicated <br> by owning 20\% to 50\% of equity (ordinary) <br> shares. |
| :--- | :--- |
| Control | Yes <br> Control is, generally, indicated by owning <br> $>50 \%$ of equity (ordinary) shares. |
| Non-controlling interests of 10\% | Yes <br> The controlling interest is, therefore, 90\% of <br> equity (ordinary) shares which is $>50 \%$. |
| Greater than 50\% of the equity shares being | Yes <br> $>50 \%$ of equity (ordinary) shares. |
| held by an investor | Yes <br> $>50 \%$ of equity (ordinary) shares. |
| 100\% of the equity shares being held by an <br> investor | No <br> Not $>50 \%$ of equity (ordinary) shares. |
| Greater than 50\% of the preference shares |  |
| being held by an investor |  |$\quad$| No |
| :--- |
| Not $>50 \%$ of equity (ordinary) shares. | \right\rvert\, | $50 \%$ of all debt being held by an investor | No <br> Not $>50 \%$ of equity (ordinary) shares. |
| :--- | :--- |
| Greater than $50 \%$ of preference shares and <br> debt being held by an investor |  |

## 37

Part 1 of 5 (4 marks)

## Part prompt:

Should each of the following amounts be used to determine the figures to be reported on the statement of financial position (SOFP) as at 31 October 20X7 before any year-end adjustments?

| Buildings - cost | [ Gap 1] | Yes |
| :--- | ---: | :--- |
| Buildings - accumulated depreciation at 1 November 20X6 | $[$ Gap 2] | No |
| Plant - cost | $[$ Gap 3] | Yes |
| Plant - accumulated depreciation at 1 November 20X6 | $[$ Gap 4] | No |
| Bank | $[$ Gap 5 ] | Yes |
| Revenue | $[$ Gap 6 ] | No |
| Purchases | $[$ Gap 7] | No |
| Inventories at 1 November 20X6 | $[$ Gap 8] | No |
| Cash | $[$ Gap 9] | Yes |
| Trade and other payables | $[$ Gap 10 ] | Yes |
| Trade receivables | $[$ Gap 11] | Yes |
| Administrative expenses | $[$ Gap 12 ] | No |
| Allowance for irrecoverable debts at 1 November 20X6 | $[$ Gap 13 ] | No |
| Retained earnings at 1 November 20X6 | $[$ Gap 14 ] | No |
| Equity shares (\$1) | $[$ Gap 15 $]$ | Yes |
| Share premium | $[$ Gap 16 ] | Yes |

Part 2 of 5 (3 marks)

## Part prompt:

The year end journal for allowance for irrecoverable debts is given below. Prepare the double entry by selecting the correct option for each row.

| Trade receivables | [ Gap 1] | No debit or credit |
| :--- | :---: | :--- |
| Administrative expenses | $[$ Gap 2 ] | Debit |
| Allowance for irrecoverable debts | $[$ Gap 3] | Credit |
| Revenue | $[$ Gap 4] | No debit or credit |

## Complete the following:

The amount included in the statement of profit or loss after the allowance is increased to $5 \%$ of trade receivables is
\$ [ Gap 5] 6 '000.

## Working:

Increase in allowance for irrecoverable debts $=(5 \% \times \$ 320 k)-\$ 10 k=\$ 6 k$

## Dr Administrative expenses

 6Cr Allowance for irrecoverable debts 6
being increase in allowance for irrecoverable debts

Part 3 of 5 (5 marks)

## Part prompt:

The year end journal for buildings and plant depreciation is given below. Using the information above, prepare the double entry by selecting the correct option for each row.

| Administrative expenses | [Gap 1] | No debit or credit |
| :--- | :--- | :--- |
| Cost of sales | $[$ Gap 2 ] | Debit |
| Buildings - cost | $[$ Gap 3 ] | No debit or credit |
| Plant - cost | $[$ Gap 4 ] | No debit or credit |
| Buildings - accumulated depreciation | $[$ Gap 5] | Credit |
| Plant - accumulated depreciation | [Gap 6] | Credit |

Calculate the depreciation charge for the below for the year ended 31 October 20X7. Use the information above to help you.

| Buildings | \$ [ Gap 7 ] 37 '000 |
| :--- | :--- |
| Plant | $\$[$ Gap 8] 22 '000 |

Workings:
Depreciation of buildings $=5 \% \times \$ 740 k=\$ 37 k$
Depreciation of plant $=20 \% \times(\$ 220 k-\$ 110 k)=\$ 22 k$
Dr Cost of sales 59
Cr Buildings - accumulated depreciation 37
Cr Plant - accumulated depreciation 22
being depreciation of non-current assets
Part 4 of 5 ( 1.5 marks)

## Part prompt:

Ignoring the depreciation charge calculated earlier, what is the cost of sales for the year?
\$ [ Gap 1] 1,225 '000
Working:
Cost of sales $=$ Opening inventories + Purchases - Closing inventories

$$
\begin{aligned}
& =\$ 160 k+\$ 1,140 k-\$ 75 k \\
& =\$ 1,225 k
\end{aligned}
$$

## Part 5 of 5 (1.5 marks)

## Part prompt:

Complete the following statements:
The double entry to post the year end adjustment for energy costs is:
Dr [ Gap 1] Administrative expenses
Cr [ Gap 2 ] Accruals
The amount to be posted within the year end adjustment double entry above is $\$$ [ Gap 3] 10 '000.

Working:
Accrued energy costs = 2/3 months $\times$ \$15k $=\$ 10 k$

