**FA and Full Specimen Exam Answers**

<table>
<tr><td>Question</td><td>Correct Answer</td><td>Marks</td></tr>
<tr><td>1</td><td>Closing net assets + drawings - capital introduced - opening net assets<br><br>Closing net assets = opening net assets + capital introduced – drawings + net profit<br>∴ Net profit = Closing net assets - capital introduced + drawings - opening 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<br><br>For a limited company, the owners are limited in their exposure to debt and liability.</td><td>2</td></tr>
<tr><td>4</td><td>$331,760<br><br>
<table>
<tr><td></td><td>$</td></tr>
<tr><td>Payments for cash and credit purchases</td><td>302,800</td></tr>
<tr><td>Prior year purchases (trade payables)</td><td>(60,000)</td></tr>
<tr><td>Cash paid for current year purchases</td><td>242,800</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Unpaid current year purchases (trade payables)</td><td>84,000</td></tr>
<tr><td>Discounts received deducted from trade payables</td><td>2,960</td></tr>
<tr><td>Contra deducted from trade payables</td><td>2,000</td></tr>
<tr><td>Remaining current year credit purchases</td><td>88,960</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Total purchases</td><td>331,760</td></tr>
</table>
</td><td>2</td></tr>
<tr><td>5</td><td>$42,594<br><br>
<table>
<tr><td></td><td>$</td></tr>
<tr><td>Opening trade payables</td><td>32,978</td></tr>
<tr><td>Credit purchases</td><td>178,509</td></tr>
<tr><td>Purchase returns</td><td>(4,945)</td></tr>
<tr><td>Payments to suppliers</td><td>(163,948)</td></tr>
<tr><td>Closing trade payables</td><td>42,594</td></tr>
</table>
</td><td>2</td></tr>
</table>

6

**Current assets: $22,240 Current liabilities: $nil**

2

| | Current assets | Current liabilities |
|---|---:|---:|
| | **$** | **$** |
| Employee loan receivable | 12,000 | - |
| Accrued interest income (2% x $12k) | 240 | - |
| Prepaid premium (8/12 months x $9k) | 6,000 | - |
| Accrued rental income | 4,000 | |
| **Financial impact of transactions** | **22,240** | **-** |

The journal entries for the above transactions would be:

Dr Other current assets (**current assets**)
  Cr Administrative expenses (expense)
*being correction to loan issued to employee, recognised incorrectly in administrative expenses*

Dr Accrued income (**current assets**)
  Cr Finance income (income)
*being interest receivable on employee loan*

Dr Prepayments (**current assets**)
  Cr Administrative expenses (expense)
*being adjustment for prepaid insurance premium*

Dr Accrued income (**current assets**)
  Cr Other income (income)
*being rental income receivable*

7

**$97,100**

2

| | $ |
|---|---:|
| Draft profit for the year | 83,600 |
| Reclassification of vehicle capitalised in error | 18,000 |
| Subsequent depreciation charge (25% x $18k) | (4,500) |
| **Adjusted profit for the year** | **97,100** |

<table>
<tr><td>8</td><td>Xena is suffering from a worsening liquidity position in 20X9<br><br>Worsening liquidity is evidenced by:<ul><li>Decreased current ratio – comparatively less amounts in current assets against current liabilities.</li><li>Increased receivables days – comparatively more time to receive cash from customers.</li><li>Decreased payable days – comparatively less time to pay suppliers.</li><li>Increased inventories turnover – comparatively more time to sell inventories and, eventually, realise as cash.</li></ul></td><td>2</td></tr>
<tr><td>9</td><td><table>
<tr><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</td><td>False<br><br>Direct and indirect methods produce the same ‘cash generated from operations’ and, therefore, ‘cash from/ used in operating activities’.</td></tr>
<tr><td>Right issues of shares do not feature in a statement of cash flows</td><td>False<br><br>Under a rights issue, a cash is received from existing shareholders at an amount below the market value and, therefore, will appear in cash flows from financing activities.</td></tr>
<tr><td>A surplus on revaluation of a non-current asset will not appear as an item in a statement of cash flows</td><td>True<br><br>As a non-cash, fair value change, there is no impact on cash flows.</td></tr>
<tr><td>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</td><td>False<br><br>Although the proceeds have a direct impact on cash flow, the profit/ loss itself is a non-cash accounting entry and there is no impact on cash flow.</td></tr>
</table></td><td>2</td></tr>
</table>

<table>
<tr><td>10</td><td>$475,900<br><br><table>
<tr><td></td><td>$</td></tr>
<tr><td>Cash receipts from rental of properties</td><td>481,200</td></tr>
<tr><td>Accrued income relating to prior year</td><td>(21,200)</td></tr>
<tr><td>Deferred income relating to next year</td><td>(31,200)</td></tr>
<tr><td>Cash receipts from current year rental income</td><td>428,800</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Deferred income from prior year, reversed</td><td>28,700</td></tr>
<tr><td>Accrued income relating to current year</td><td>18,400</td></tr>
<tr><td>Remaining rental income for the current year</td><td>47,100</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Total rental income</td><td>475,900</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 publicly filed<br><br>A sole trader is fully and personally liable for any losses that the business might make<br><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® Accounting Standards in doing so.</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<br><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.</td><td>2</td></tr>
</table>

| | | |
|---|---|---|
| 13 | **$36,750 Dr**<br><br>As stated, this 'balance c/f' is carried forward to the next accounting period. Only **balances** are carried forward to the next financial year. **Transactions** are transferred to the statement of profit or loss before profit/ loss is then transferred to retained earnings on the statement of financial position. Transactions start at zero in the next financial year. | 2 |
| 14 | **The useful lives of intangible assets capitalised in the financial statements**<br><br>**Impairment losses written off intangible assets during the period**<br><br>Per IAS 38® *Intangible Assets* (para 118), "An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:<br>(a) whether the useful lives are indefinite or finite and, if finite, **the useful lives** or the amortisation rates used;<br>(b) …<br>(c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated **impairment losses**) at the beginning and end of the period".<br><br>There is no requirement for description of development projects that have been undertaken during the year; nor is there a requirement to disclose a list of all intangible assets purchased or developed during the period. A **reconciliation**, using asset classifications overall, **is** required. | 2 |
| 15 | **2 only**<br><br>Per IAS 38 *Intangible Assets* (para 54), "**No intangible asset arising from research (or from the research phase of an internal project) shall be recognised**. Expenditure on research (or on the research phase of an internal project) shall be **recognised as an expense when it is incurred**".<br><br>Furthermore (para 88), "**An entity shall assess** whether the useful life of an intangible asset is finite or indefinite and, if finite, the … **useful life**". There is **no requirement** for a useful life not exceeding five years. | 2 |

<table>
<tr><td>16</td><td>

**$6,600**

<table>
<tr><td></td><td>$</td></tr>
<tr><td>Cash paid in relation to electricity expense</td><td>5,400</td></tr>
<tr><td>Prepaid expense from prior year, reversed</td><td>550</td></tr>
<tr><td>Accrued expense for current year</td><td>650</td></tr>
<tr><td>Total electricity expense</td><td>6,600</td></tr>
</table>

</td><td>2</td></tr>
<tr><td>17</td><td>

**$22,000**

<table>
<tr><td></td><td>$</td></tr>
<tr><td>Allowance at year end (5% x [$517k - $37k])</td><td>24,000</td></tr>
<tr><td>Allowance brought forward</td><td>(39,000)</td></tr>
<tr><td>Decrease in allowance for irrecoverable debts</td><td>(15,000)</td></tr>
<tr><td>Irrecoverable debts write off</td><td>37,000</td></tr>
<tr><td>Net irrecoverable debt expense</td><td>22,000</td></tr>
</table>

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

**$180,000**

<table>
<tr><td></td><td>$</td></tr>
<tr><td>Cost at 1 January 20X1</td><td>200,000</td></tr>
<tr><td>Accumulated depreciation (4/20 years x $200k)</td><td>(40,00)</td></tr>
<tr><td>Carrying amount at 31 December 20X4</td><td>160,000</td></tr>
<tr><td>Fair value at 1 January 20X5</td><td>340,000</td></tr>
<tr><td>Revaluation increase</td><td>180,000</td></tr>
</table>

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

**Carriage inwards**

**Depreciation of factory machinery**

Per IAS 2 *Inventories* (para 11), “The costs of purchase of inventories comprise … **transport**, **handling** and other costs directly attributable to the acquisition” and (para 12) “The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a **systematic allocation of fixed and variable production overheads** that are incurred in converting materials into finished goods … **such as depreciation and maintenance of factory buildings, equipment and right-of-use assets used in the production process**”.

Carriage outwards is not relevant as this relates to the sale of goods. General “**administrative overheads** that do not contribute to bringing inventories to their present location and condition” are examples of costs **excluded** from the cost of inventories (para 16).

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<table>
<tr><td>20</td><td>

**$17,060**

Cost of sales<br>= Opening inventories + Purchases - Closing inventories<br>= $6,700 + $84,000 - $5,400<br>= $85,300

Gross profit = (20% ÷ 100%) x $85,300 = **$17,060**

</td><td>2</td></tr>
<tr><td>21</td><td>

**Ordinary share capital: $225,000**

**Share premium account: $250,000**

<table>
<tr><th></th><th>Share capital</th><th>Share premium</th></tr>
<tr><th></th><th>$</th><th>$</th></tr>
<tr><td>Opening balances</td><td>125,000</td><td>100,000</td></tr>
<tr><td>Rights (1/2 x 500k x $0.25; $0.75)</td><td>62,500</td><td>187,500</td></tr>
<tr><td>Bonus (1/5 x [500k + 250k] x $0.25)</td><td>37,500</td><td>(37,500)</td></tr>
<tr><td>Closing balances</td><td>225,000</td><td>250,000</td></tr>
</table>

</td><td>2</td></tr>
<tr><td>22</td><td>

**1 and 3 only**

The amortisation of development costs is expensed and is **not** presented separately in the statement of changes in equity.

Amortisation is, effectively, an element **within total comprehensive income for the year**, reported as a whole amount in the statement of changes in equity.

</td><td>2</td></tr>
<tr><td>23</td><td>

**$55,000**

<table>
<tr><th></th><th>$</th></tr>
<tr><td>Opening balance</td><td>240,000</td></tr>
<tr><td>Disposal on 31 March 20X5 (9/12 months x $60k)</td><td>(45,000)</td></tr>
<tr><td>Addition on 30 June 20X5 (6/12 months x $160k)</td><td>80,000</td></tr>
<tr><td>Cost prorated for additions and disposals</td><td>275,000</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Depreciation charge (20% x $275k)</td><td>55,000</td></tr>
</table>

</td><td>2</td></tr>
<tr><td>24</td><td>

**24%**

Return on capital employed<br>= Operating profit ÷ (Equity + Non-current liabilities)<br>= $10,200 ÷ ($35,600 + $6,900)<br>= **24%**

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

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

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

| | | |
|---|---|---|
| 27 | **Cannon Co should provide for the expected cost of the claim of $100,000**<br><br>Per IAS 37 *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><br>A legal obligation is present via the claim from a customer and it is most likely that Cannon Co will lose the case. Therefore, the provision should be measured at $100k, which is assumed to be a reliable estimate. | 2 |
| 28 | **$1,015** | 2 |
| 29 | **$3,670 cash at bank** | 2 |

Question 28:

| | **$** |
|---|---|
| Total cost | 1,222 |
| Maintenance (expense in profit or loss) | (25) |
| Sales tax (collected on behalf of authority) | (182) |
| **Capitalised cost** | **1,015** |

Question 29:

| | **$** |
|---|---|
| Bank overdraft per bank statement | (3,860) |
| Outstanding lodgements | 16,690 |
| Unpresented cheques | (9,160) |
| **Reconciled bank balance** | **3,670** |

<table>
<tr><td>30</td><td>Completeness<br><br>Neutrality<br><br>Per the IASB® Conceptual Framework for Financial Reporting (para 1.17), “Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity’s economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period”. It is, itself, an accounting concept<br><br>“Financial statements are normally prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading” (para 3.9). It is, again, an accounting concept itself.</td><td>2</td></tr>
<tr><td>31</td><td>$307,100<br><br><table>
<tr><td></td><td>$</td></tr>
<tr><td>Opening balance</td><td>308,600</td></tr>
<tr><td>Credit sales</td><td>152,800</td></tr>
<tr><td>Interest charged on overdue accounts</td><td>2,400</td></tr>
<tr><td>Contras</td><td>(4,600)</td></tr>
<tr><td>Cash received from credit customers</td><td>(147,200)</td></tr>
<tr><td>Irrecoverable debts written off</td><td>(4,900)</td></tr>
<tr><td>Closing balance</td><td>307,100</td></tr>
</table></td><td></td></tr>
</table>

<table>
<tr><td>32</td><td>
<table>
<tr><td>A valuation of property providing evidence of impairment in value at the reporting date</td><td>Yes<br><br>An example of “the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period”.</td></tr>
<tr><td>Sale of inventory held at the reporting date for less than cost</td><td>Yes<br><br>An example of “the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period”.</td></tr>
<tr><td>Discovery of fraud or error affecting the financial statements</td><td>Yes<br><br>An example of “the discovery of fraud or errors that show that the financial statements are incorrect”.</td></tr>
<tr><td>The insolvency of a customer with a debt owing at the reporting date which is still outstanding</td><td>Yes<br><br>An example of “the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period”.</td></tr>
</table>
<br>Per IAS 10 Events After the Reporting Period (para 3), an adjusting events are “those that provide evidence of conditions that existed at the end of the reporting period”. Examples of several adjusting events are provided (para 9) and are shown above.</td><td>2</td></tr>
<tr><td>33</td><td>$188,500<br><br>Closing inventories (units)<br>= (700 + 500 - 400 + 300 - 250) units = 850 units<br><br>Closing inventories (value)<br>= (300 units x $230) + (500 units x $220) + (50 units x $190)<br>= $188,500</td><td>2</td></tr>
</table>

| | | |
|---|---|---|
| 34 | **$32,400**<br><br>Closing net assets = opening net assets + capital introduced – drawings + net profit<br>∴ **Net profit** = Closing net assets - capital introduced + drawings - opening net assets<br>= ($614,130 - $369,770) - $65,000 + (12 x $800) - ($569,400 - $412,840)<br>= **$32,400** | 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><br>The incorrect manual journal entry for accrued motor expenses was recognised as:<br><br>Dr Motor expenses 4,139<br>Cr Suspense account 4,139<br>*being incorrect accounting treatment of accrued motor expenses*<br><br>Regarding the other choices, the omitted/ incorrect manual journal entries were recognised as:<br>• Dr Trade receivables 4,139<br>Cr Revenue 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 1,439<br>Cr Bank 1,439<br>*being wage payment recognised at incorrect amount* | 2 |

**36**

**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<br>$8,400k parent + $3,200k subsidiary - $1,500k intragroup transfer of goods | **[ *Gap 2* ]** | 10,100 |
| Cost of sales<br>$4,600k parent + $1,700k subsidiary - $1,500k intragroup transfer of goods + $150k intragroup unrealised profit | **[ *Gap 3* ]** | (4,950) |
| **Gross profit** | **[ *Gap 4* ]** | **5,150** |
| Operating expenses: | | |
| Selling expenses<br>$1,500k parent + $510k subsidiary | **[ *Gap 5* ]** | (2,010) |
| General and administrative expenses<br>$700k parent + $450k subsidiary | **[ *Gap 6* ]** | (1,150) |
| **Profit before income taxes** | **[ *Gap 7* ]** | **1,990** |
| Income tax expense<br>$600k parent + $140k subsidiary | **[ *Gap 8* ]** | (740) |
| **PROFIT** | **[ *Gap 9* ]** | **1,250** |
| | | |
| Attributable to: | | |
| Owners of the parent<br>$1,250k consolidated profit - $80k non-controlling interest's share of subsidiary's profit | **[ *Gap 10* ]** | 1,170 |
| Non-controlling interests<br>20% non-controlling interests' share x $400k profit of subsidiary | **[ *Gap 11* ]** | 80 |
| | | **1,250** |

**Working:**
Unrealised profit in inventories = 30% x ($1,500k - $1,000k) = **$150k**

**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?**

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

**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% x $320k) - $10k = **$6k**

| | | |
|---|---|---|
| **Dr Administrative expenses** | **6** | |
| **Cr 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% x $740k = **$37k**
Depreciation of plant = 20% x ($220k - $110k) = **$22k**

| | | |
|---|---|---|
| **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
= $160k + $1,140k - $75k
= **$1,225k**

**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 x $15k = **$10k**