FA2 – Specimen Exam Answers

Question	Correct answer	Marks
1.	**An accrual of $600** Accrual = 1/3 months x $1,800 = **$600**	2
2.	**Depreciating property, plant and equipment – Accruals** **Classifying property as a non-current asset – Accruals** Both statements follow the principles of accrual accounting: • Depreciating an asset over its useful life spreads cost over the periods in which it will be used – it **matches** cost to useful life. • Classifying as a non-current asset allows for the above depreciation to occur – the alternative being to incorrectly recognise the entire cost immediately and not match it to the useful life.	2
3.	**Location** **Description** The verification of an asset requires its location (in which to find it) and its description (with which it can be identified). Its cost and where it was purchased from (supplier) are irrelevant for an asset's verification.	2
4.	**To ensure that the business is able to make the repayments on a loan** A bank manager is less likely to be interested in: • To ensure that the profit is sufficient to provide a good income for John – although a bank manager may be interested in the financial results (and drawings), they are less concerned about whether an owner's income is, subjectively, 'good'. • To calculate the tax payable on John's business profit – the revenue authority rather than the bank manager would be interested in this. • To ensure that John's profit margin is as good as the margin earned by other bank customers – although this may be an important performance measure for a bank manager, cash flow and the ability to repay debt is much more important.	2
5.	**The error would need to be corrected before the financial statements were finalised – True** **The correction will decrease the profit for the year – False** The error should be corrected, using a manual journal entry. Doing so will increase profit by $10,000 initially as the asset is reclassified to non-current assets. Subsequently, there will be a decrease in profit from depreciating the non-current asset by $1,500, leaving a net **increase** in profit of $8,500.	2
6.	**A change in the value of assets leads to an equal change in the value of liabilities plus capital** This statement is based on the accounting equation, where assets are equal to the total of capital and liabilities. Any change in assets will, therefore, have an equal and opposite change in the total of capital plus liabilities.	2

<table>
<tr><td>7.</td><td>$21,510
<table>
<tr><td></td><td>$</td><td>$</td></tr>
<tr><td>Cost of inventories at 30 June 20X5</td><td></td><td>22,960</td></tr>
<tr><td>Write down of inventories to net realisable value:</td><td></td><td></td></tr>
<tr><td>Cost</td><td>1,950</td><td></td></tr>
<tr><td>Net realisable value ($900 - $400)</td><td>(500)</td><td>(1,450)</td></tr>
<tr><td>Value of inventories at 30 June 20X5</td><td></td><td>21,510</td></tr>
</table></td><td>2</td></tr>
<tr><td>8.</td><td>$6,600

Assets = Capital + Liabilities
∴ Capital = Assets - Liabilities
= ($1,100 + $16,000) - ($2,500 + $8,000)
= $6,600</td><td>2</td></tr>
<tr><td>9.</td><td>$1,500

A provision should be made for the most likely amount of damages, which is $1,500.</td><td>2</td></tr>
<tr><td>10.</td><td>$2,040

Cost of sales = Opening inventories + Purchases - Closing inventories
∴ Closing inventories = Opening inventories + Purchases - Cost of sales
= $0 + $25,800 - ([100% ÷ 130%] x $30,888)
= $2,040</td><td>2</td></tr>
<tr><td>11.</td><td>Raj had given Fiona a credit note for goods returned which had been omitted from Raj's supplied account in Fiona's accounting system

Fiona had recorded a purchase invoice from Raj in Raj's supplier account in Fiona's accounting system twice

The remaining statements would not explain why the supplier statement balance is less than the general ledger account balance:

If Fiona had made a payment to Raj before the year end which had not been reflected on the statement of account, then the supplier account would be less than the supplier statement.
If Fiona had recorded a payment to a different supplier and allocated it incorrectly to Raj's account, then the supplier account would, again, be less.
</td><td>2</td></tr>
<tr><td>12.</td><td>$325.00

Purchases (net) = $357.50 x (100% ÷ 110%) = $325.00</td><td>2</td></tr>
<tr><td>13.</td><td>$91,888
<table>
<tr><td></td><td>$</td></tr>
<tr><td>Balance at 1 September 20X1</td><td>31,754</td></tr>
<tr><td>Capital introduced</td><td>40,000</td></tr>
<tr><td>Profit for the year ended 31 August 20X2</td><td>48,634</td></tr>
<tr><td>Drawings</td><td>(28,500)</td></tr>
<tr><td>Balance at 31 August 20X2</td><td>91,888</td></tr>
</table></td><td>2</td></tr>
</table>

<table>
<tr><td>14.</td><td>Profit for the year – Overstated
Net assets at year end – Overstated

Cost of sales = Opening inventories + Purchases - Closing inventories

If closing inventories are overstated, a greater amount is deducted from opening inventories and purchases, giving an understated cost of sales. In turn, this leads to overstated profit for the year.

As inventories are part of net assets, overstated inventories leads to overstated net assets.</td><td>2</td></tr>
<tr><td>15.</td><td>Profit will increase by $1,100
Net assets will increase by $1,100

The journal entries for the prepayment and accrual are as follows:

Dr Prepayments $1,500
Cr Expenses $1,500
being prepaid expenses

Dr Expenses $ 400
Cr Accruals $ 400
being accrued expenses

The net effect of the two journal entries is to increase net assets by $1,100 ($1,500 - $400) and to decrease expenses by the same amount. This, in turn, increases profit.</td><td>2</td></tr>
<tr><td>16.</td><td>Dr Sales returns $670
Cr Trade receivables $670
being issue of credit note to customer</td><td>2</td></tr>
<tr><td>17.</td><td>$7,241

<table>
<tr><td></td><td>Michael</td><td>Donald</td></tr>
<tr><td></td><td>$</td><td><b>$</td></tr>
<tr><td>Opening current accounts</td><td>11,486</td><td>9,637</td></tr>
<tr><td>Share of profit $28,595 (3:4)</td><td>12,255</td><td>16,340</td></tr>
<tr><td>Drawings</td><td>(16,500)</td><td>(16,500)</td></tr>
<tr><td>Closing current accounts</td><td>7,241</td><td>9,477</td></tr>
</table></td><td>2</td></tr>
<tr><td>18.</td><td>$2,010 credit

<table>
<tr><td></td><td>$</td></tr>
<tr><td>Bank overdraft balance at 1 October 20X1</td><td>(3,270)</td></tr>
<tr><td>Electronic bank transfers</td><td>(189,642)</td></tr>
<tr><td>Lodgements</td><td>191,729</td></tr>
<tr><td>Bank charges</td><td>(827)</td></tr>
<tr><td>Bank overdraft balance at 30 September 20X2</td><td>(2,010)</td></tr>
</table></td><td>2</td></tr>
<tr><td>19.</td><td>Cost of sales – Statement of profit or loss
Provisions – Statement of financial position
Depreciation expense – Statement of profit or loss
Capital – Statement of financial position</td><td>2</td></tr>
</table>

<table>
<tr><td>20.</td><td>$1,050 due to tax authority

<table>
<tr><td></td><td>$</td></tr>
<tr><td>January sales</td><td>5,875</td></tr>
<tr><td>February sales</td><td>8,225</td></tr>
<tr><td>March sales</td><td>7,050</td></tr>
<tr><td>January purchases</td><td>(3,525)</td></tr>
<tr><td>February purchases</td><td>(4,700)</td></tr>
<tr><td>March purchases</td><td>(5,875)</td></tr>
<tr><td>Net taxable income</td><td>7,050</td></tr>
<tr><td>Sales tax ([17.5% ÷ 117.5%] x $7,050)</td><td>1,050</td></tr>
</table></td><td>2</td></tr>
<tr><td>21.</td><td>Increase in capital
Increase in assets

Dr Bank (Assets)
  Cr Capital introduced (Capital)
being capital introduced</td><td>2</td></tr>
<tr><td>22.</td><td>$14,125

Value of opening inventories plus cost of purchases
= (250 units x $155.00) + (140 units x $158.00) + (110 units x $160.00)
= $78,470

Periodic weighted average cost
= $78,470 ÷ (250 + 140 + 110) units
= $156.94 per unit

Value of closing inventories
= $156.94 per unit x (250 - 175 + 140 - 130 +110 - 105) units
= $14,124.60

Note: Rounded only the final value of inventories – do not round the periodic weighted average cost per unit.</td><td>2</td></tr>
<tr><td>23.</td><td>Some cheques have not been lodged by her suppliers – No
The bank debited fees on her account – Yes

Unpresented cheques are not adjusted for as they are a timing difference only. Any income/ expense omitted from the general ledger account, like bank fees, must be adjusted for in the general ledger.</td><td>2</td></tr>
<tr><td>24.</td><td>$24,277

<table>
<tr><td></td><td>Total</td></tr>
<tr><td></td><td>$</td></tr>
<tr><td>Net profit of the partnership</td><td>43,877</td></tr>
<tr><td>Salary (Alex)</td><td>(11,000)</td></tr>
<tr><td>Interest on capital ($8,000 + $9,500)</td><td>(17,500)</td></tr>
<tr><td>Interest on drawings ($3,500 + $5,400)</td><td>8,900</td></tr>
<tr><td>Residual profit for the year ended 31 December 20X1</td><td>24,277</td></tr>
</table></td><td>2</td></tr>
</table>

<table>
<tr><td>25.</td><td>Inventory valuation should exclude profit that has not yet been earned

Inventories are valued at the lower of cost and net realisable value (NRV). Cost excludes any future profit. If NRV is lower than cost, we include losses not yet incurred by recognising an increase in cost of sales and a decrease in inventories (i.e., a write down of inventories to NRV).

The other statements are incorrect:
Not all inventories should be held at cost – if NRV is lower, they will be held at NRV instead.
Not all inventories should be held at NRV – if cost is lower, they will remain at initial cost.
‘Last In, First Out’ is disallowed as a measurement basis per IAS® 2 Inventories.</td><td>2</td></tr>
<tr><td>26.</td><td>To allocate the cost of a non-current asset over the accounting periods expected to benefit from its use

Depreciation is an application of accrual accounting, matching the expense of the asset across the useful life in which it generates economic benefit.

The other statements are incorrect:
Depreciation is an accounting expense only; no cash is recognised/ allocated based on the depreciation charge.
The fair value of an asset may exceed its carrying amount; for example, buildings in a period where property markets are performing better than in prior years.
The falling realisable value of the asset is, effectively, its fair value (see above).</td><td>2</td></tr>
<tr><td>27.</td><td>$202 as a current asset</td><td>2</td></tr>
<tr><td>28.</td><td>$36,769

<table><tr><td></td><td>$</td></tr><tr><td>Opening capital account balance</td><td>35,869</td></tr><tr><td>Drawings</td><td>(17,800)</td></tr><tr><td>Net profit for the year</td><td>18,700</td></tr><tr><td>Closing capital account balance</td><td>36,769</td></tr></table></td><td>2</td></tr>
<tr><td>29.</td><td>$801 credit

<table><tr><td></td><td>$</td></tr><tr><td>Opening allowance for irrecoverable debts</td><td>11,700</td></tr><tr><td>Closing allowance for irrecoverable debts (15% x $72,660)</td><td>10,899</td></tr><tr><td>Decrease in allowance for irrecoverable debts</td><td>801</td></tr></table></td><td>2</td></tr>
<tr><td>30.</td><td>$2,120

<table><tr><td></td><td><b>$</td></tr><tr><td>Bank balance per general ledger</td><td>2,280</td></tr><tr><td>Bank charges not in general ledger</td><td>(40)</td></tr><tr><td>Dishonoured cheque not corrected in general ledger</td><td>(120)</td></tr><tr><td>Reconciled balance per bank ledger control account</td><td>2,120</td></tr></table></td><td>2</td></tr>
</table>

<table>
<tr><td>31.</td><td>$25,000

Goodwill will be written off in the new profit-sharing ratio, equally between three partners. Therefore, each partner’s capital account will be debited by $25,000 ($75,000 ÷ 3).

Delia must introduce $25,000 capital (in cash) which will bring the capital account to nil.</td><td>2</td></tr>
<tr><td>32.</td><td>As a deduction from the value of sales

This may be recognised in a ‘discounts allowed’ general ledger account but this is netted against the value of sales for presentation on the statement of profit or loss. Alternatively, it may be recognised directly as a reduction to sales.</td><td>2</td></tr>
<tr><td>33.</td><td>$87,074

<table>
<tr><td></td><td>$</td></tr>
<tr><td>Trade receivables per general ledger</td><td>90,350</td></tr>
<tr><td>Irrecoverable debt written off</td><td>(1,950)</td></tr>
<tr><td>Allowance for irrecoverable debts (1.5% x [$90,350 - $1,950])</td><td>(1,326)</td></tr>
<tr><td>Trade receivables per statement of financial position</td><td>87,074</td></tr>
</table>

The journal entries, combined, to recognise cash received from a debt previously written off are:

~~Dr Trade receivables~~
Cr Irrecoverable debt expense
being reinstatement of debt previously written off

Dr Bank
~~Cr Trade receivables~~
being receipt from credit customer

There is no impact on trade receivables; as shown above, trade receivables are equally debited and credited, cancelling out the journal entries to trade receivables.</td><td>2</td></tr>
<tr><td>34.</td><td>Accrued insurance expenses = 5/6 months x $1,380 = $1,150
Dr Insurance expenses $1,150
Cr Accruals $1,150
being accrued insurance expenses</td><td>2</td></tr>
<tr><td>35.</td><td>$13,770

<table>
<tr><td></td><td>$</td></tr>
<tr><td>Purchase of machine</td><td>12,000</td></tr>
<tr><td>Costs of transportation</td><td>1,300</td></tr>
<tr><td>Costs of installation</td><td>2,000</td></tr>
<tr><td>Capitalised cost</td><td>15,300</td></tr>
<tr><td>Depreciation charge (10% x $15,300)</td><td>(1,530)</td></tr>
<tr><td>Carrying amount at 31 December 20X1</td><td>13,770</td></tr>
</table></td><td>2</td></tr>
</table>

<table>
<tr><td>36.</td><td>$29,220
<table><tr><td></td><td>Luis</td><td>David</td><td>Total</td></tr><tr><td></td><td>$</td><td>$</td><td>$</td></tr><tr><td>Salary</td><td>-</td><td>9,000</td><td>9,000</td></tr><tr><td>Interest on capital (8% x $75,000; $60,000)</td><td>6,000</td><td>4,800</td><td>10,800</td></tr><tr><td>Residual profit (3:2 x balancing figure)</td><td>23,220</td><td>15,480</td><td>38,700</td></tr><tr><td>Total profit share</td><td>29,220</td><td>29,280</td><td>58,500</td></tr></table></td><td>2</td></tr>
<tr><td>37.</td><td>Capital plus liabilities equals assets

Assets = Capital + Liabilities</td><td>2</td></tr>
<tr><td>38.</td><td>$1,650 gain
<table><tr><td></td><td>$</td></tr><tr><td>Carrying amount of disposal ($11,600 - $6,750)</td><td>4,850</td></tr><tr><td>Part exchange ($9,000 - $2,500)</td><td>6,500</td></tr><tr><td>Gain on disposal</td><td>1,650</td></tr></table></td><td>2</td></tr>
<tr><td>39.</td><td>$40,900
<table><tr><td></td><td><b>$</td></tr><tr><td>Water treatment equipment</td><td>39,800</td></tr><tr><td>Delivery</td><td>1,100</td></tr><tr><td>Capitalised cost</td><td>40,900</td></tr></table></td><td>2</td></tr>
<tr><td>40.</td><td>Rent and rates will be shown in the statement of profit or loss as an expense of $21,000

Stationery will be shown in the statement of profit or loss as an expense of $1,800

Both stationery and rent and rates are an expense (debit)</td><td>2</td></tr>
<tr><td>41.</td><td>Dr Purchases
Cr Trade payables
being credit purchases</td><td>2</td></tr>
<tr><td>42.</td><td>$15,450
<table><tr><td></td><td></td><td></td></tr><tr><td>Sales</td><td></td><td>45,000</td></tr><tr><td>Cost of sales:</td><td></td><td></td></tr><tr><td>Opening inventories</td><td>5,700</td><td></td></tr><tr><td>Purchases ($29,500 + $750)</td><td>30,250</td><td></td></tr><tr><td>Closing inventories</td><td>(6,400)</td><td></td></tr><tr><td></td><td></td><td>(29,550)</td></tr><tr><td>Gross profit</td><td></td><td>15,450</td></tr></table></td><td>2</td></tr>
<tr><td>43.</td><td>It is a statement that shows the financial performance of a business for an accounting period

A statement of profit or loss is presented “for the period ended” and represents financial performance (i.e., income and expenditure). Other comprehensive income is also part of financial performance.</td><td>2</td></tr>
</table>

<table>
<tr><td>44.</td><td>Neither 1 nor 2

If a business is not considered to be a going concern, financial statements would still need to be prepared but would be done so using a different measurement basis from that of a going concern.</td><td>2</td></tr>
<tr><td>45.</td><td>Bank current account – Current liability
Bank loan – Non-current liability

No payments will be made for the bank loan until February 20X5, a minimum of 14 months away.</td><td>2</td></tr>
<tr><td>46.</td><td>Dr Irrecoverable debt expense $720
Cr Trade receivables $720
being irrecoverable debts written off</td><td>2</td></tr>
<tr><td>47.</td><td>Transport costs of imported raw materials – Should be included
Storage costs of <u>finished</u> goods – Should NOT be included
General administrative overheads – Should NOT be included
Selling costs – Should NOT be included</td><td>2</td></tr>
<tr><td>48.</td><td>$289,772

<table>
<tr><td></td><td>$</td></tr>
<tr><td>Opening trade receivables</td><td>27,641</td></tr>
<tr><td>Receipts from credit customers ($327,684 - $45,000)</td><td>(282,684)</td></tr>
<tr><td></td><td>(255,043)</td></tr>
<tr><td>Closing trade receivables</td><td>34,729</td></tr>
<tr><td>Credit sales</td><td>289,772</td></tr>
</table></td><td>2</td></tr>
<tr><td>49.</td><td>$44,000

<table>
<tr><td></td><td>Juan</td><td>Bilal</td><td>Total</td></tr>
<tr><td></td><td>$</td><td><b>$</td><td>$</td></tr>
<tr><td>Salary</td><td>10,000</td><td>20,000</td><td>30,000</td></tr>
<tr><td>Residual profit (2:3 x balancing figure)</td><td>34,000</td><td>51,000</td><td>85,000</td></tr>
<tr><td>Total profit share</td><td>44,000</td><td>71,000</td><td>115,000</td></tr>
</table></td><td>2</td></tr>
<tr><td>50.</td><td>Consistency

Regarding the incorrect statements:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity
Under duality, each debit has a corresponding credit, built on the foundations of the accounting equation.
Accrual accounting means that income is recognised as earned and that expenses are recognised as incurred. It also means that income and the related expense are matched as appropriate.
</td><td>2</td></tr>
</table>