

FOUNDATIONS IN ACCOUNTANCY

Maintaining Financial Records

Specimen Exam applicable from June 2014

Time allowed: 2 hours


ALL 50 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.

The Association of Chartered Certified Accountants

Paper FA2

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

ALL 50 questions are compulsory and MUST be attempted

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 Sybil's financial year ended on 30 November 20X2. She incurs the same telephone expense each month. The last invoice paid for telephone calls was \$1,800. This invoice covered the three months to 31 October 20X2.

What adjustment is required when preparing the accounts for the year to 30 November 20X2?

- A A prepayment of \$600
- B A prepayment of \$1,200
- C An accrual of \$600
- D An accrual of \$1,200

- 2 A trial balance fails to agree by \$1,000.

Which of the following errors could have caused its difference?

- A A \$1,000 cheque received from a customer, F Bloggs, has been credited to J Bloggs' account in the payables ledger
- B A rent payment of \$500 had been debited to a non-current asset account
- C A non-current asset costing \$500 had been credited to the purchases account
- D A \$1,000 cheque paid to a supplier had been credited to the supplier's account in the payables ledger

- 3 Norman is entering information into the non-current asset register.

Which of the following items of information will be used when carrying out a verification of the physical presence of non-current assets?

- (1) Supplier
- (2) Location
- (3) Description
- (4) Cost

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

- 4 John has been asked to provide a copy of his final accounts to his bank manager.

What is the bank manager MOST likely to use the final accounts for?

- A To ensure that the profit is sufficient to provide a good income for John
- B To calculate the tax payable on John's business profit
- C To ensure that John's profit margin is as good as the margin earned by other bank customers
- D To ensure that the business is able to make the repayments on a loan

5 Harriet is carrying out a reconciliation of her payables ledger. She needs to make correcting entries due to the following errors:

- (1) A payment to Bennett Dawson has been posted to the account of Dawson Bennett
- (2) An invoice for \$435 has been entered in the purchase day book as \$345

Which of the corrections will result in an entry in the general ledger?

- A 1 only
- B 2 only
- C Both 1 and 2
- D Neither 1 nor 2

6 **Which of the following statements correctly describes the dual aspect convention of accounting?**

- A A change in the value of assets leads to an equal change in the value of liabilities plus capital
- B Only two ledger accounts will be needed to record any transaction
- C If a transaction requires two debit entries, two credit entries must also be made
- D Transactions are recorded in both a book of prime entry and the general ledger

7 Janet valued her inventory at 30 June at its cost of \$22,960. This includes some items which cost \$1,950 which have been difficult to sell. Janet intends to have these items repacked at a cost of \$400. She can then sell them for \$900.

What will be the value of closing inventory in Janet's accounts at 30 June?

- A \$20,610
- B \$21,510
- C \$22,310
- D \$24,260

8 A business has cash of \$1,100, trade payables of \$2,500, a mortgage liability of \$8,000 and land of \$16,000.

What is the capital balance?

- A \$6,600
- B \$10,500
- C \$16,000
- D \$20,400

9 Adele runs a restaurant. In August 20X3 she received a letter from a lawyer representing a customer who claims he suffered food poisoning after eating in the restaurant. The customer is claiming damages of \$3,000. Adele offered to pay \$300. Her lawyer's advice is that in the event of the case going to court, she is likely to be required to pay \$1,500. The solicitor also advised that the court case is unlikely to take place before April 20X4.

What amount should be provided for in respect of the claim in Adele's final accounts for the year ended 30 September 20X3?

- A \$nil
- B \$300
- C \$1,500
- D \$3,000

- 10 Ruth started trading a year ago. She sells her products at a mark up of 30%. In the first year of trading, she bought goods for \$25,800. Her sales in the year were \$30,888.

What is the value of Ruth's closing inventory?

- A \$1,569
- B \$2,040
- C \$3,750
- D \$5,700

- 11 Arthur has found that an invoice for \$780 for motor expenses has been posted to the correct side of the motor expenses account but the entry is for \$870.

What entry is needed to correct this error?

- A Dr Suspense \$90 Cr Motor expenses \$90
- B Dr Motor expenses \$90 Cr Suspense \$90
- C Dr Motor expenses \$90 Cr Trade payables \$90
- D Dr Trade payables \$90 Cr Motor expenses \$90

- 12 Ari is registered for sales tax and he has purchased goods for resale. The invoice shows the cost of the goods as \$357.50, which includes sales tax at 10%.

What debit entry should be made in the goods for resale account?

- A \$325.00
- B \$357.50
- C \$321.75
- D \$393.25

- 13 At 1 September 20X1 the balance on Hai's capital account was \$31,754. In the year to 31 August 20X2 he invested an additional amount of \$40,000 of personal funds and took a loan of \$80,000 for the business. The statement of profit or loss for the year to 31 August 20X2 reported a profit of \$48,634 and Hai's drawings during the year were \$28,500.

What is Hai's closing capital balance at 31 August 20X2?

- A \$43,254
- B \$91,888
- C \$123,254
- D \$151,754

- 14 When Frank prepared his year end accounts, he made a calculation error and overstated the value of his closing inventory.

What is the effect of this error on the profit for the year and the net assets at the year end?

- A Both profit and net assets will be understated
- B Both profit and net assets will be overstated
- C Profit will be understated and net assets will be overstated
- D Profit will be overstated and net assets will be understated

- 15 John prepared his draft year end accounts, but did not adjust these for a prepayment of \$1,500 and an accrual of \$400.

How will John's profit and net assets be affected by including the prepayment and the accrual?

- A Net profit will increase by \$1,100 Net assets will reduce by \$1,100
- B Net profit will reduce by \$1,900 Net assets will increase by \$1,900
- C Net profit will increase by \$1,100 Net assets will increase by \$1,100
- D Net profit will reduce by \$1,900 Net assets will reduce by \$1,900

- 16 One of Brian's customers returned goods valued at \$670. These had been sold on credit.

What double entry should Brian make to record the return of the goods?

- A Dr Receivables ledger control \$670 Cr Bank \$670
- B Dr Bank \$670 Cr Receivables ledger control \$670
- C Dr Receivables ledger control \$670 Cr Sales returns \$670
- D Dr Sales returns \$670 Cr Receivables ledger control \$670

- 17 Michael and Donald have been in partnership for several years, sharing profits and losses in the ratio 3:4. At 1 January they had the following credit balances on their capital and current accounts:

	Capital \$	Current \$
Michael	65,000	11,486
Donald	80,000	9,637

The partnership statement of profit or loss for the year to 31 December shows a net profit of \$28,595, and the partners had made drawings of \$16,500 each.

What is the balance of Michael's current account at 31 December?

- A \$5,014 debit
- B \$7,241 credit
- C \$11,326 credit
- D \$23,741 credit

- 18 At 1 October 20X1, Bakari's bank overdraft was \$3,270. During the year to 30 September 20X2, he issued cheques with a total value of \$189,642. His total lodgements during the year were \$191,729. In addition, bank charges of \$827 were incurred.

What is Bakari's bank balance brought forward at 1 October 20X2 as per his accounting records?

- A \$2,010 credit
- B \$4,530 debit
- C \$356 credit
- D \$6,184 debit

19 At 31 October the balance on the payables control account in Tim's general ledger is \$79,850 and the total of the list of balances on the personal accounts is \$79,310. Tim has discovered that the difference is because a payment for \$60 was entered correctly in the day book but was recorded as \$600 on the supplier's account.

What is the correct value of creditors to be reported on Tim's statement of financial position at 31 October?

- A** \$79,250
- B** \$79,310
- C** \$79,790
- D** \$79,850

20 Which of the following errors will be revealed by extracting a trial balance?

- (1) Error of single entry
- (2) Error of commission
- (3) Error of complete omission
- (4) Error of transposition

- A** 1 and 3
- B** 2 and 3
- C** 3 and 4
- D** 1 and 4

21 Which of the following is a reason for producing a trial balance?

- A** To check if certain errors have been made when recording transactions
- B** To confirm that the balance on each ledger account has been calculated correctly
- C** To ensure that all transactions have been recorded
- D** To check that depreciation has been calculated correctly

22 At 1 January 20X3 Wasan had 250 units of a particular item in inventory. These were valued at \$155 per unit.

During January, the purchases and sales of the item were:

Date	Purchases	Sales
5 January		175 units
10 January	140 units at \$158 per unit	
17 January		130 units
22 January	110 units at \$160 per unit	
28 January		105 units

Wasan values inventory on the periodic weighted average basis.

What is the value of Wasan's inventory at 31 January 20X3 (to the nearest \$1)?

- A** \$14,125
- B** \$14,190
- C** \$14,400
- D** \$14,299

- 23** Margaret compared her bank statement with the bank account in her general ledger and found they did not agree. She found two possible reasons for this.
- (1) Some cheques have not been lodged by her suppliers
 - (2) The bank debited fees on her account

Which of the reasons require an entry in the bank account in the general ledger?

- A** 1 only
 - B** 2 only
 - C** Both 1 and 2
 - D** Neither 1 nor 2
- 24** Alex and Jose are in partnership. Under the terms of the partnership, Alex is entitled to a salary of \$11,000 per annum. In the year to 31 December 20X1, the net profit of the partnership was \$43,877. Interest on capital and interest on drawings for the year have been calculated as:

	Alex	Jose
Interest on capital	\$8,000	\$9,500
Interest on drawings	\$3,500	\$5,400

What is the residual profit for the year to 31 December 20X1?

- A** \$35,277
 - B** \$24,277
 - C** \$52,477
 - D** \$41,477
- 25 Which of the following statements regarding inventory valuation is correct?**
- A** Inventory valuation should exclude profit which has not yet been earned
 - B** All items held in inventory should be valued at cost
 - C** Inventory should be valued at anticipated selling price less any cost which will be incurred
 - D** The purchase price of items which have been held for the longest period is an acceptable method for valuing inventory
- 26 What is the purpose of charging depreciation?**
- A** To allocate the cost of a non-current asset over the accounting periods expected to benefit from its use
 - B** To ensure that funds are available for the eventual replacement of the non-current asset
 - C** To reduce the cost of a non-current asset in the statement of financial position
 - D** To comply with the prudence concept

27 Samantha has prepared the following bank reconciliation statement at 31 March:

	\$
Balance on bank statement	1,250 (overdrawn)
Outstanding cheques	748
Outstanding lodgement	2,200
Balance on ledger account	202 (debit)

How should the bank balance be reported in Samantha's statement of financial position as at 31 March?

- A \$1,250 as a current asset
- B \$1,250 as a current liability
- C \$202 as a current asset
- D \$202 as a current liability

28 At the start of the year, the balance on Toni's capital account was \$35,869. During the year Toni made drawings of \$17,800 and the net profit for the year was \$18,700.

What is the balance on Toni's capital account at the end of the year?

- A \$34,969
- B \$18,069
- C \$54,569
- D \$36,769

29 At 30 November, Charles is owed a total of \$72,660 by his customers. His receivables allowance brought forward from the previous year end is \$11,700. He estimates that his receivables allowance should be equivalent to 15% of the amounts due from customers.

What value should be included in the statement of profit or loss for receivables expense for the year to 30 November?

- A \$801 debit
- B \$10,899 debit
- C \$801 credit
- D \$10,899 credit

30 Sarah's bank ledger control account at 30 April shows a balance at the bank of \$2,280. Comparison with the bank statement at the same date reveals the following differences:

	\$
Unpresented cheques	780
Bank charges not in cash book	40
Receipts not yet credited by the bank	450
Dishonoured cheque not in cash book	120

What is the correct bank ledger control account balance at 30 April?

- A \$1,340
- B \$2,120
- C \$2,360
- D \$1,950

31 Maura and Carrie have been in partnership sharing profits and losses equally. At 1 March 20X1 the total value of their capital and current balances was \$225,000. At that date Delia was admitted to the partnership and it was agreed that:

- (1) the partners would share profits and losses equally
- (2) goodwill in the business would be valued at \$75,000
- (3) goodwill would not be maintained in the books of the partnership
- (4) Delia would introduce cash to ensure that her opening capital balance is nil

How much must Delia contribute?

- A** \$25,000
- B** \$37,500
- C** \$12,500
- D** \$75,000

32 How should discounts which are allowed to customers for early settlement be treated when the statement of profit or loss is prepared?

- A** As an expense deducted from gross profit
- B** As an expense included in cost of sales
- C** As a deduction from the value of sales
- D** As a deduction from the value of discount received

33 Jessie's trial balance at 30 September 20X0 included:

	Debit \$	Credit \$
Receivables ledger control account	90,350	
Allowance for doubtful debts brought forward		2,490

The following information is also available:

- (1) No entries have been made in respect of cash of \$1,320 received from Jeffrey whose balance had been written off last year, and
- (2) At 30 September 20X0 an irrecoverable balance of \$1,950 is to be written off and the receivable allowance is to be adjusted to 1.5% of the remaining balance

What figure will be reported in the statement of financial position at 30 September for receivables?

- A** \$89,564
- B** \$85,754
- C** \$87,074
- D** \$88,994

34 Which of the following is the reason for carrying out payables ledger reconciliation?

- A** To check that the balance on a supplier's ledger account agrees with the supplier's statement
- B** To check that the entries have been made correctly in the customer's personal accounts
- C** To check that the value of purchases is correctly recorded in the general ledger
- D** To check that the balance on the general ledger control account is correct

35 Alan purchased a machine on 1 March 20X1 for \$12,000. He incurred additional costs for transportation of \$1,300 and installation of \$2,000. Shortly after he started to use the machine, it broke down and the repairs of the machine cost \$600. Alan charges depreciation at 10% per annum on straight line basis with a full year's charge in the year of acquisition.

What is the correct net book value of the machine at the year end date of 31 December 20X1?

- A** \$10,800
- B** \$13,770
- C** \$14,370
- D** \$15,300

36 Luis and David are in partnership sharing profits and losses in the ratio 3:2. David is entitled to a salary of \$9,000 and interest on capital is paid at a rate of 8% per annum. The partners' capital balances are:

Luis	\$75,000
David	\$60,000

The partnership statement of profit or loss for the year shows a profit of \$58,500.

How much of the total profit is Luis entitled to?

- A** \$23,220
- B** \$38,220
- C** \$29,220
- D** \$35,100

37 Which of the following correctly states the accounting equation?

- A** Assets plus liabilities equals capital
- B** Assets plus capital equals liabilities
- C** Capital plus liabilities equals assets
- D** Capital minus liabilities equals assets

38 Fred purchased a new van. The new van cost \$9,000 and Fred paid a cheque for \$2,500 to the dealer. In addition the dealer accepted an old van in part exchange. The old van had been bought three years ago for \$11,600 and had been depreciated by \$6,750.

What is the profit or loss on disposal of the old van?

- A** \$1,650 loss
- B** \$1,650 profit
- C** \$6,500 loss
- D** \$6,500 profit

39 Lance is entering an invoice in the purchase day book. The invoice shows the following costs:

Water treatment equipment	\$39,800
Delivery	\$1,100
Maintenance charge	\$3,980
Sales tax	\$7,854
Invoice total	\$52,734

What is the total value of capital expenditure on the invoice?

- A \$39,800
- B \$40,900
- C \$44,880
- D \$52,734

40 Lorna is preparing her monthly receivables ledger reconciliation. She has discovered that a credit balance of \$79 on a customer's account has been treated as a debit balance.

To complete the reconciliation, what adjustment should Lorna make to the total of the list of balances?

- A Reduce the total by \$79
- B Increase the total by \$79
- C Increase the total by \$158
- D Reduce the total by \$158

41 Nandita has bought goods for resale on credit from Pascale. The goods cost \$600 before sales tax, which is calculated at 10%.

When the transaction is posted to the general ledger, which of the following entries should be included?

- (1) Sales tax – credit entry
- (2) Purchase ledger control account – credit entry
- (3) Purchases – debit entry
- (4) Bank – credit entry

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

42 At 30 September 20X3 Pamela's inventory was valued at \$6,400 and her trial balance included the following balances:

	Debit (\$)	Credit (\$)
Sales		45,000
Purchases	29,500	
Inventory at 1 October 20X2	5,700	
Carriage inwards	750	
Postage	340	
Wages	6,000	
Advertising	1,900	
Other expenses	2,500	

What is Pamela's gross profit for the year to 30 September 20X3?

- A \$4,710
- B \$15,110
- C \$15,450
- D \$16,200

43 If an extended trial balance had been completed and the result was a loss, into which columns would the result be entered?

	Statement of profit or loss	Statement of financial position
A	Debit	Debit
B	Credit	Debit
C	Debit	Credit
D	Credit	Credit

44 Consider the following statements about going concern:

- (i) financial statements must always be prepared on the going concern basis
- (ii) if a business is not considered to be a going concern, financial statements should not be prepared

Which of the statements is/are correct?

- A (i) only
- B (ii) only
- C both (i) and (ii)
- D neither (i) nor (ii)

45 At 30 November 20X3, Zoltan's bank current account was overdrawn. He also had a bank loan on which monthly capital repayments will commence in February 20X5.

How should these balances be reported on his statement of financial position at 30 November 20X3?

	Bank current account	Bank loan
A	Current liability	Current liability
B	Non-current liability	Current liability
C	Current asset	Non-current liability
D	Current liability	Non-current liability

46 James has been advised that one of his customers has ceased trading and that he will not recover the balance of \$720 owed by his customer.

What entry should James make in his general ledger?

- A Dr Receivables ledger control \$720 Cr Receivables expense \$720
- B Dr Receivables expense \$720 Cr Receivables ledger control \$720
- C Dr Receivables ledger control \$720 Cr Bank \$720
- D Dr Bank \$720 Cr Receivables ledger control \$720

47 When the extended trial balance is being completed, in which column should the value for a bank overdraft be entered?

- A Statement of profit or loss debit
- B Statement of profit or loss credit
- C Statement of financial position debit
- D Statement of financial position credit

48 The amount owed to Jane by her customers at 31 October was \$34,729. A year earlier she was owed \$27,641. During the year Jane had lodged \$327,684 to her bank account. This included payments received from her customers as well as \$45,000 which Jane had received from the sale of her holiday home.

What was the value of Jane's sales for the year to 31 October?

- A \$334,772
- B \$327,684
- C \$282,684
- D \$289,772

49 Assume that the extended trial balance has been extended but the result for the year has not been calculated. The totals of the statement of profit or loss and the statement of financial position columns are:

Statement of profit or loss		Statement of financial position	
Dr \$473,954	Cr \$485,889	Dr \$172,544	Cr \$160,609

Which of the following is the correct result for the year?

- A A profit of \$11,935
- B A loss of \$11,935
- C A loss of \$11,944
- D A profit of \$11,944

50 Which accounting principle is applied when two similar transactions are treated in the same way?

- A Consistency
- B Materiality
- C Double entry
- D Accruals

(100 marks)

End of Question Paper

Answers

FOUNDATIONS IN ACCOUNTANCY – Paper FA2
Maintaining Financial Records

Specimen Exam Answers

- 1 C November 20X2 telephone payment is accrued.
Payment for November 20X2 = $1800 \div 3 = \$600$
- 2 C
- 3 C
- 4 D
- 5 B
- 6 A
- 7 B $22,960 - 1,950 + 900 - 400$
- 8 A $16,000 + 1,100 - 2,500 - 8,000$
- 9 C
- 10 B $25,800 - (30,888/1.3)$
- 11 A
- 12 A $357.5/(1 + 0.10)$
- 13 B Bal b/f \$31,754 + Cap Intro \$40,000 + Profit \$48,634 – Drawings \$28,500
- 14 B
- 15 C
- 16 D
- 17 B Bal b/f 11,486 + Profit share 12,255 – Drawings 16,500
- 18 A Bank o/d b/f (3,270) – chqs issued 189,642 + lodgements 191,729 – bank charges 827
- 19 D
- 20 D
- 21 A
- 22 A Periodic weighted average rate
 $= [(250 \times \$155) + (140 \times \$158) + (110 \times \$160)] / (250 + 140 + 110) = \156.94
Closing inventory (units) = $250 - 175 + 140 - 130 + 110 - 105 = 90$
Closing inventory (value) = $\$156.94 \times 90 = \$14,125$
- 23 B
- 24 B Net profit \$43,877 – Salary \$11,000 – Int on capital \$17,500 + Int on drawings \$8,900
- 25 A
- 26 A
- 27 C
- 28 D Balance b/f \$35,869 – drawings \$17,800 + profit \$18,700
- 29 C $\$11,700 - 15\% \text{ of } \$72,660$
- 30 B $\$2,280 - \$40 - \$120$
- 31 A
- 32 A
- 33 C $\$90,350 - 1,950 - 1.5\% \text{ of } (\$90,350 - 1,950)$
- 34 D
- 35 B $\$12,000 + 1,300 + 2,000 - 10\% \text{ of } (12,000 + 1,300 + 2,000)$
- 36 C Available profit $\$58,500 - \$9,000 - 8\% \text{ of } 75,000 - 8\% \text{ of } 60,000 = \$38,700$
Luis share $(3/5) \times \$38,700 + \text{Interest on capital} = \$23,220 + \$6,000$
- 37 C
- 38 B $\$9,000 - (2,500 + (11,600 - 6,750))$
- 39 B $\$39,800 + 1,100$
- 40 D
- 41 A
- 42 C $\$45,000 + 6,400 - (29,500 + 5,700 + 750)$
- 43 B
- 44 D
- 45 D
- 46 B

47 D

48 D $\$327,684 - 45,000 + (34,729 - 27,641)$

49 A $\$485,889 - \$473,954$

50 A