

Specimen Exam 1

Exam Name: Financial Accounting (K1)

Time allowed: 2 hours

Pass Mark: 50%

This exam contains 2 sections:

Section A:

35 questions, each worth 2 marks

70 marks in total

Section B:

2 questions, each worth 15 marks

30 marks in total

Section A

Question 1

The following trial balance extract has been produced by Teal Co:

Trial balance (extract)

As at 31 December 20X2

	Debit \$	Credit \$
Operating expenses	13,400,000	
Prepayments at 1 January 20X2	100,000	
Accruals at 1 January 20X2		600,000

Prepayments and accruals at 31 December 20X2 are calculated as \$400,000 and \$800,000 respectively.

Which TWO of the following journal entries are required to finalise Teal Co's prepayments and accruals for the year ended 31 December 20X2?

A	Dr Operating expenses Cr Accruals	\$200,000 \$200,000
B	Dr Operating expenses Cr Accruals	\$800,000 \$800,000
C	Dr Prepayments Cr Operating expenses	\$100,000 \$100,000
D	Dr Prepayments Cr Operating expenses	\$300,000 \$300,000

Question 2

The following extracts are provided for Oyster Co:

Oyster Co	
Statement of financial position (extracts)	
As at 30 April 20X8	
	\$'000
ASSETS	
Current assets	
Inventories	14,200
Trade receivables	18,000
Cash and cash equivalents	4,600
Total current assets	36,800
Current liabilities	
Payables for goods and services received	19,600
Income taxes payable	2,600
Total current liabilities	22,200
Oyster Co	
Statement of profit or loss (extracts)	
For the year ended 30 April 20X8	
	\$,000
Revenue	480,000

The revenue includes \$400m of credit sales and \$80m of cash sales.

Which TWO of the following key accounting ratios are CORRECT?

- A Receivables collection period of 14 days
- B Receivables collection period of 16 days
- C Quick (Acid test) ratio of 1.0:1
- D Quick (Acid test) ratio of 1.7:1

Question 3

Opal Co processed an invoice in its purchases system on 1 September 20X8 and the full amount of \$1m is recognised in payables for goods and services received at 30 September 20X8.

The invoice covered Opal Co's buildings insurance for the five months ended 31 January 20X9.

Calculate the prepayment to be recorded on Opal Co's statement of financial position as at 30 September 20X8 (to the nearest \$'000).

\$,000

Question 4

Which TWO of the following business documents would an entity produce as part of the sales process?

- A Goods despatched note
- B Purchase order
- C Supplier invoice
- D Customer invoice

Question 5

Unicorn Co uses a computerised accounting system in which both the sales and purchases modules are fully integrated. Manual journal entries are required for all other transactions. An entry in a suspense account is created for any manual journal entries that are imbalanced.

Which TWO of the following errors would NOT be identified by reviewing Unicorn Co's trial balance?

- A The manual journal entry for depreciation charges was debited correctly to operating expenses but no credit entry was made
- B A supplier invoice received was incorrectly entered into the purchases system as \$800 instead of \$300
- C A cash receipt from a customer was recognised by debiting cash by \$10,000 but crediting trade receivables by \$1,000
- D No invoice was issued on the sales system for goods delivered to the customer on the year-end date

Question 6

Abstract Co's general ledger accounts are to be finalised at the period end.

Which TWO of the following statements illustrate how to finalise Abstract Co's general ledger accounts at the period end?

- A Amounts in asset, equity and liability accounts in the general ledger should be carried forward to the next period
- B Amounts in asset, equity and liability accounts in the general ledger should be transferred to retained earnings at the period end
- C Amounts in income and expense accounts in the general ledger should be carried forward to the next period
- D Amounts in income and expense accounts in the general ledger should be transferred to retained earnings at the period end

Question 7

Marigold Co has the following payroll information for the year ended 31 March 20X8:

Payroll information	\$m
Gross wages and salaries	12
Employees' social security contributions	1.2
Employer's social security contributions	1.8
Taxes on employees' personal income	2

What is Marigold Co's staff costs for the year ended 31 March 20X8?

- A \$8.8m
- B \$10m
- C \$12m
- D \$13.8m

Question 8

Which of the following ratios is MOST relevant when analysing liquidity?

- A Operating profit margin
- B Return on capital employed
- C Current ratio
- D Interest cover

Question 9

Fig Co's statement of cash flows for the year ended 30 November 20X9 is being prepared. The direct method is used for calculating cash from operating activities before income taxes.

The following information is available:

Fig Co

Statement of financial position (extracts)
As at 30 November

	20X9 \$'000	20X8 \$'000
ASSETS		
Current assets		
Trade receivables	24,500	12,000

Fig Co

Statement of profit or loss (extracts)
For the year ended 30 November 20X9

	\$'000
Revenue	118,200
Operating profit	17,300

What is Fig Co's cash received from customers for the year ended 30 November 20X9 (in \$m, to one decimal place)?

- A \$4.8m
- B \$29.8m
- C \$105.7m
- D \$130.7m

Question 10

Zinc Co depreciates its non-current assets monthly, using the straight-line method. Its non-current assets have a 20-year useful life and their carrying amount at 1 January 20X3 was \$35m (cost of \$50m and accumulated depreciation of \$15m).

All non-current assets are in use and none are fully depreciated. There were no disposals during the year ended 31 December 20X3. A new non-current asset was purchased for \$5m on 1 July 20X3.

What is the depreciation charge for the year ended 31 December 20X3?

- A \$1.875m
- B \$2m
- C \$2.625m
- D \$2.75m

Question 11

Eros Co has made sales on credit to Nickel Co.

Which TWO of the following accurately explain the nature of discounts?

- A A settlement discount is applied when an invoice is issued
- B A trade discount is applied when an invoice is issued
- C A settlement discount is applied on payment of an invoice
- D A trade discount is applied on payment of an invoice

Question 12

Creek Co is performing an analysis of its trade receivables balance.

Which TWO of the following will INCREASE profit?

- A A decrease in the allowance for irrecoverable debts
- B An increase in the allowance for irrecoverable debts
- C The subsequent receipt of cash on a debt previously written off
- D The write off of an irrecoverable debt

Question 13

Walnut Co recorded a cash payment to a credit supplier by crediting cash and cash equivalents by the correct amount of \$3,600 but by debiting trade payables by the incorrect amount of \$6,300. A suspense account was automatically created.

Which of the following is the correcting journal entry required to eliminate the suspense account from the trial balance?

A	Dr Trade payables	\$2,700	
	Cr Suspense account		\$2,700
B	Dr Suspense account	\$2,700	
	Cr Trade payables		\$2,700
C	Dr Trade payables	\$6,300	
	Cr Suspense account		\$6,300
D	Dr Suspense account	\$6,300	
	Cr Trade payables		\$6,300

Question 14

Elm Co made a one-for-four rights issue on 1 December 20X9. The rights price was \$3.00 per share and was fully subscribed.

On 30 November 20X9, Elm Co had 400,000 \$1.00 ordinary (equity) shares in issue.

Which of the following is the appropriate journal entry to account for Elm Co's rights issue on 1 December 20X9?

A	Dr Bank	\$300,000	
	Cr Share capital		\$100,000
	Cr Share premium		\$200,000
B	Dr Bank	\$300,000	
	Cr Share capital		\$200,000
	Cr Share premium		\$100,000
C	Dr Retained earnings	\$300,000	
	Cr Share capital		\$300,000
D	Dr Bank	\$200,000	
	Dr Share premium		\$100,000
	Cr Share capital		\$300,000

Question 15

Which of the following parties is ultimately responsible for the preparation of a reporting entity's financial statements?

- A The directors
- B The external auditor
- C The internal auditor
- D The ordinary (equity) shareholders

Question 16

The financial accountant of Hera Co, a manufacturing entity, made the following statements regarding disclosure in the financial statements:

- (1) The depreciation methods and useful lives of Hera Co's manufacturing plant should be disclosed
- (2) The total carrying amount of inventories should include Hera Co's raw materials, work in progress and finished goods
- (3) For Hera Co's provisions, only additional provisions during the year need to be disclosed

Which of the above statements is/are TRUE?

- A 1 and 2 only
- B 1 only
- C 2 and 3 only
- D 1,2 and 3

Question 17

The International Accounting Standards Board's *Conceptual Framework for Financial Reporting* (Conceptual Framework) includes both fundamental and enhancing qualitative characteristics of useful financial information.

Select whether each of the following are fundamental or enhancing qualitative characteristics of useful financial information, in accordance with the Conceptual Framework.

		Fundamental	Enhancing
1.	Relevance		
2.	Verifiability		
3.	Timeliness		
4.	Comparability		

Question 18

Notus Co's bank reconciliation statement as at 31 January 20X8 has been drafted but not finalised. The following information is available:

- (1) The bank statement shows a debit balance of \$30m at 31 January 20X8
- (2) \$20m of deposits on 28 January 20X8 have not yet cleared the bank
- (3) Interest expenses of \$2m were omitted from the general ledger
- (4) The bank deducted a \$3m payment in error and has not yet corrected for this

What is the reconciled bank balance to be presented on Notus Co's statement of financial position as at 31 January 20X8?

- A \$7m liability
- B \$9m liability
- C \$51m asset
- D \$53m asset

Question 19

A supplier invoice for legal services received was initially omitted from Vortex Co's general ledger but was later discovered and input correctly during the year-end procedures.

The invoice has not yet been paid.

The following statements were made by the Finance Director of Vortex Co regarding this omission:

- (1) Profit on the statement of profit or loss has now decreased
- (2) As the invoice has not yet been paid, the outstanding balance should be presented as an accrual on the statement of financial position

Which of the above statements is/are TRUE after correcting for the error?

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

Question 20

Xenon Co produces timber. As part of the production process, timber must be dried in a heated warehouse to create the finished product.

Select whether each of the following items is a cost to be recognised in inventories or is an expense to be charged to profit or loss.

		Cost recognised in inventories	Expense charged to profit or loss
1.	Delivery of trees from supplier		
2.	Direct labour costs for production		
3.	Electricity costs for heated warehouse		
4.	Delivery of timber to customers		

Question 21

Moss Co, a listed company, acquired 30% of Heart Co during the year ended 31 July 20X2 and has significant influence over it. There are no other group companies.

Which of the following statements regarding the equity method of accounting is TRUE?

- A On initial recognition, the investment in Heart Co is recognised at cost
- B Goodwill relating to Heart Co is recognised as a separate non-current asset and not included in the carrying amount of the investment
- C Heart Co's financial statements do not need to be prepared using uniform accounting policies with Moss Co
- D 30% of Heart Co's balances and transactions should be consolidated on a line-by-line basis

Question 22

The directors of Bagpipes Co are reviewing potential balances to be capitalised as intangible assets.

Select whether each of the following items should be capitalised or expensed in accordance with IAS 38 Intangible Assets.

		Capitalised	Expensed
1.	Purchase of a license to sell goods		
2.	Patent successfully applied for		
3.	Advertising expenses		
4.	Internally generated brand		

Question 23

Apricot Co has incomplete records regarding inventories, measured using weighted average cost, at 31 January 20X3. The following information is available:

- (1) Inventories at 1 February 20X2 had a carrying amount of \$2m
- (2) Purchases of inventories for the year ended 31 January 20X3 were \$7m
- (3) Sales of inventories for the year ended 31 January 20X3 were \$4m
- (4) The average gross profit margin for the year ended 31 January 20X3 was 25%

Calculate the carrying amount of Apricot Co's inventories at 31 January 20X3 (to the nearest \$m).

\$ m

Question 24

Spruce Co made a cash purchase of furniture and fittings from Argon Co for \$50,000.

Which of the following is the journal entry that Spruce Co must process to recognise this cash transaction?

A	Dr Cash	\$50,000
	Cr Non-current assets	\$50,000
B	Dr Cash	\$50,000
	Cr Operating expenses	\$50,000
C	Dr Non-current assets	\$50,000
	Cr Cash	\$50,000
D	Dr Operating expenses	\$50,000
	Cr Cash	\$50,000

Question 25

Pluto Co calculates its gearing ratio as “Debt ÷ Equity”. Its gearing ratio is currently 25%.

Which of the following would DECREASE the gearing ratio?

- A An issue of bonus shares
- B An issue of loan notes
- C Cash repayment of borrowings
- D Cash settlement of trade payables

Question 26

Aloe Co is conducting an internal review of its non-current asset register and some capitalised costs have been queried by management.

Which TWO of the following are costs which are required to be capitalised as part of a non-current asset's carrying amount?

- A Advertising costs for the opening of a new facility
- B Installation of a new boiler in an entity's head office property
- C Annual service of motor vehicles fleet
- D Safety guards on machinery

Question 27

Drum Co issued an invoice for a total price of \$8m on 1 December 20X1, covering services it will provide for the four months ended 31 March 20X2.

Which of the following is the appropriate journal entry to record the necessary adjustment to Drum Co's financial statements for the year ended 31 December 20X1?

A	Dr Operating expenses	\$2,000,000	
	Cr Accruals		\$2,000,000
B	Dr Operating expenses	\$6,000,000	
	Cr Accruals		\$6,000,000
C	Dr Revenue	\$2,000,000	
	Cr Deferred income		\$2,000,000
D	Dr Revenue	\$6,000,000	
	Cr Deferred income		\$6,000,000

Question 28

Pixie Co has sent statements to each of its customers to confirm their balances at 31 August 20X5.

Which of the following statements will NOT create a difference between the trade receivables general ledger account and the customer's own financial records?

- A Pixie Co entered a \$1,000 cash receipt in the computerised accounting system when the actual amount received from the customer was \$100
- B A customer sent an electronic payment for an invoice but this has not yet cleared Pixie Co's bank account
- C Pixie Co provided for a customer's balance in its allowance for irrecoverable debts
- D Pixie Co issued a credit note in the computerised accounting system but the customer has not yet received this

Question 29

Canyon Co is registered for sales tax.

Canyon Co sold goods to Tuba Co on credit for a total price of \$1.2m, inclusive of sales tax at 20%.

Which of the following is the CORRECT journal entry to account for this transaction from Canyon Co's perspective?

A	Dr Trade receivables	\$1,200,000
	Cr Revenue	\$1,000,000
	Cr Sales tax account	\$200,000
B	Dr Trade receivables	\$1,440,000
	Cr Revenue	\$1,200,000
	Cr Sales tax account	\$240,000
C	Dr Purchases	\$1,000,000
	Dr Sales tax account	\$200,000
	Cr Trade payables	\$1,200,000
D	Dr Purchases	\$1,200,000
	Dr Sales tax account	\$240,000
	Cr Trade payables	\$1,440,000

Question 30

Castle Co has a credit balance of \$5m for income tax payable in its trial balance, relating to an over/under-provision of income taxes for the year ended 31 October 20X8.

The estimated tax liability for the year ended 31 October 20X9 is \$25m.

Calculate Castle Co's income tax expense for the year ended 31 October 20X9 (to the nearest \$m)

\$ m

Question 31

Jive Co acquired 80% of Boca Co several years ago.

During the year ended 31 May 20X9, Jive Co sold goods to Boca Co for a total invoice price of \$28m. The markup charged by Jive Co was 40%.

20% of these goods remained in inventories at 31 May 20X9.

What is the unrealised profit in inventories to be removed from the Jive Group's consolidated financial statements for the year ended 31 May 20X9?

- A \$1.28m
- B \$1.60m
- C \$1.79m
- D \$2.24m

Question 32

Haizea and Carson are in a partnership and the profit for the year ended 31 August 20X4 was \$65,000.

The partnership agreement states that:

- (1) Profits are shared in the ratio of 3:2 in Haizea's favour
- (2) Interest on drawings is charged at 10%
- (3) A salary of \$20,000 is paid to each partner

The partners each took drawings of \$1,000 per month.

Calculate Haizea's total share of residual profit for the year ended 31 August 20X4, to be added to her current account.

\$

Question 33

Frame Co has a year-end date of 31 July 20X7. The financial statements have not yet been authorised for issue. The following events were identified:

- (1) Frame Co acquired Candle Co on 14 September 20X7. Negotiations around this acquisition started on 1 June 20X7.
- (2) Severe flooding on 22 August 20X7 destroyed inventories which have been held in Frame Co's warehouse since the period end.
- (3) On 18 August 20X7, there was an incident at one of Frame Co's facilities and an employee began legal action immediately following this.

Which of the above events are ADJUSTING events after the reporting period, in accordance with IAS 10 Events after the Reporting Period?

- A 1 and 2 only
- B 1 and 3 only
- C 1, 2 and 3
- D None of the above

Question 34

Vista Co purchases finished goods from a wholesaler and sells them through its retail stores.

It started trading on 1 April 20X8 and had the following inventories movements:

Purchase/Sale	Month	Units	Purchase cost	Sales price
		'000	\$ per unit	\$ per unit
Purchase	11 April 20X8	120	1.80	
Sale	30 August 20X8	80		5.00
Purchase	9 December 20X8	100	2.10	
Sale	24 March 20X9	130		5.50

Vista Co measures the cost of inventories using the first-in, first-out (FIFO) method.

Calculate the carrying amount of inventories as at 31 March 20X9 (to the nearest \$'000).

\$,000

Question 35

The directors of Brook Co are considering the differences in accounting treatment between provisions, contingent liabilities and contingent assets.

Which TWO of the following statements in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets are TRUE?

- A An entity shall not recognise a contingent asset
- B An entity shall not recognise a contingent liability
- C A provision is a liability of certain timing and amount
- D Provisions shall be recognised for future operating losses

Section B

Question 36

Pastel Co acquired 80% of the share capital of Tower Co on 1 June 20X5. The draft statements of profit or loss for the year end of 31 May 20X6 are shown below:

	Pastel Co	Tower Co
	\$'000	\$'000
Revenue	8,400	3,200
Less: Cost of sales	4,600	1,700
Gross profit	3,800	1,500
Operating expenses:		
Less: Selling expenses	1,500	510
Less: General and administrative expenses	700	450
Operating profit	1,600	540
Profit before financing and income taxes	1,600	540
Less: Interest expenses on borrowings	50	40
Profit before income taxes	1,550	500
Less: Income tax expense	600	140
PROFIT	950	360

During the year Pastel Co sold goods costing \$1m to Tower Co for a price of \$1.5m. At 31 May 20X6, 30% of these goods remained in Tower Co's inventories.

Task 1

Using the information above, complete the following summarised extract of a financial statement. You will be required to either enter numerical values directly into the highlighted cells or select the correct option/formula from a dropdown list.

Note: Do not show any figures as negative. Enter all amounts as \$'000

	A	B	C
1			
2			\$'000
3 Revenue			
4 Less: Cost of sales			
5 Operating expenses:			
6 Less: Selling expenses			
7 Less: General and administrative expenses			
8 Less: Interest expenses on borrowings			
9			
10 Less: Income tax expense			
11			
12 Profit attributable to:			
13 Owners of the parent			
14 Non-controlling interests			
15			

The following are the options/formulas to choose from for the relevant highlighted cells where a dropdown list is provided:

Title of financial statement:

1. Consolidated statement of profit or loss as at 31 May 20X6
2. Statement of profit or loss for the year ended 31 May 20X6
3. Consolidated statement of profit or loss for the year ended 31 May 20X6
4. Statement of profit or loss as at 31 May 20X6

Revenue:

1. $8,400 + 3,200 + 1,500$
2. $8,400 + (80\% \times 3,200) - 1,500$
3. $8,400 + 3,200$
4. $8,400 + (80\% \times 3,200)$
5. $8,400 + 3,200 - 1,500$
6. $8,400 + 3,200 - 1,000$

Cost of sales:

1. $4,600 + 1,700 - 1,500 + (30\% \times 500)$
2. $4,600 + (80\% \times 1,700) - 1,500$
3. $4,600 + 1,700$
4. $4,600 + (80\% \times 1,700)$
5. $4,600 + 1,700 - 1,500 - (30\% \times 500)$
6. $4,600 + 1,700 - 1,000$

Owners of the parent:

1. Pastel Co's profit for the year
2. Group profit for the year
3. Group profit for the year + Non-controlling interests
4. Group profit for the year – Non-controlling interests

Task 2

Select whether each of the following factors indicate the existence of a parent-subsidiary relationship.

		Yes	No
1.	Significant influence		
2.	Control		
3.	Non-controlling interests of 10%		
4.	Greater than 50% of the equity shares being held by an investor		
5.	100% of the equity shares being held by an investor		
6.	Greater than 50% of the preference shares being held by an investor		
7.	50% of all debt being held by an investor		
8.	Greater than 50% of the preference shares and debt being held by an investor		

Question 37

Waves Co has an accounting year end of 31 October. The accountant is preparing the financial statements as at 31 October 20X7. A trial balance has been prepared but no year-end adjustments have been made.

Task 1

Select whether each of the following amounts should 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.

	Dr	Cr	To be used to calculate SOFP figures before year-end adjustments	
	\$'000	\$'000	Yes	No
Buildings at cost	740			
Buildings accumulated depreciation at 1 November 20X6		60		
Plant at cost	220			
Plant accumulated depreciation at 1 November 20X6		110		
Bank balance		70		
Revenue		1,800		
Net purchases	1,140			
Inventory at 1 November 20X6	160			
Cash	20			
Trade payables		250		
Trade receivables	320			
Administrative expenses	325			
Allowance for irrecoverable debts at 1 November 20X6		10		
Retained earnings at 1 November 20X6		130		
Equity shares, \$1		415		
Share premium account		80		
	2,925	2,925		

Task 2

The allowance for irrecoverable debts is to be increased to 5% of trade receivables. Irrecoverable debt expenses are treated as administrative expenses.

Complete the journal entry for the allowance for irrecoverable debts by selecting the correct option for each general ledger account below.

Trade receivables	
Administrative expenses	
Allowance for irrecoverable debts	
Revenue	

The following are the options to select from for each general ledger account:

1. Debit
2. Credit
3. No debit or credit

Complete the following statement:

The amount included in the statement of profit or loss after the allowance is increased to 5% of trade receivables is

\$,000 (to the nearest \$'000)

Task 3

Plant is depreciated at 20% per annum using the diminishing-balance method and buildings are depreciated at 5% per annum on their original cost. Depreciation is recorded in cost of sales.

Using the information above, complete the journal entry to account for buildings and plant depreciation by selecting the correct option for each general ledger account below.

Administrative expenses	
Cost of sales	
Buildings cost	
Plant cost	
Buildings accumulated depreciation	
Plant accumulated depreciation	

The following are the options to select from for each general ledger account:

1. Debit
2. Credit
3. No debit or credit

Calculate the depreciation charge for each of the following items for the year ended 31 October 20X7 (to the nearest \$'000).

Buildings \$,000

Plant \$,000

Task 4

Closing inventories have been counted and are valued as \$75,000.

Ignoring the depreciation charge calculated earlier, calculate the cost of sales for the year (to the nearest \$'000).

\$,000

Task 5

An invoice of \$15,000 for energy costs relating to the quarter ended 30 November 20X7 was received on 2 December 20X7. Energy costs are included in administrative expenses.

Complete the following email in relation to this transaction. You will be required to either enter numerical values directly into the highlighted cells or select the correct option from a dropdown list.

To: accountant@waves.com

From: payables@waves.com

Subject: Energy costs

Hello,

I hope this email finds you well. I wanted to let you know about how we have recorded a recent energy invoice we received.

The journal entry to post the year end adjustment for the energy costs is Dr and Cr .

The amount to be posted within the year end adjustment double entry above is

\$,000 (to the nearest \$'000).

I hope this information is useful.

Kind regards

The following are the options to choose from for the relevant highlighted cells where a dropdown list is provided:

Dr entry

1. Administrative expenses
2. Accruals

Cr entry

1. Administrative expenses
2. Accruals