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ACCA Paper F3 and FFA Financial Accounting September and December 2015 Final Assessment

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1 When commenting about the script performance, please ensure on individual questions and on overall assessment your comments cover areas of examination technique including:

<ul style="list-style-type: none">• Time management	<ul style="list-style-type: none">• Handwriting	<ul style="list-style-type: none">• Presentation and layout	<ul style="list-style-type: none">• Use of English
<ul style="list-style-type: none">• Points clearly and concisely made	<ul style="list-style-type: none">• Relevance of answers to question	<ul style="list-style-type: none">• Coverage and depth of answer	<ul style="list-style-type: none">• Accuracy of calculations
<ul style="list-style-type: none">• Calculations cross-referenced to workings	<ul style="list-style-type: none">• All parts of the requirement attempted	<ul style="list-style-type: none">• Length of answers equates to marks available	<ul style="list-style-type: none">• Read the question carefully

2 For each question, please provide suitable constructive comments

Question Number	General Comments	Exam Technique Comments

ACCA FINAL ASSESSMENT

Financial Accounting

**September and December
2015**

Time allowed 2 hours

This paper is divided into two sections:

Section A – ALL 35 questions are compulsory and **MUST** be answered.

Section B – BOTH questions are compulsory and **MUST** be answered.

Do NOT open this paper until instructed by the supervisor.

This question paper must not be removed from the examination hall.

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Paper F3 and FFA

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SECTION A**ALL 35 QUESTIONS ARE COMPULSORY AND MUST BE ANSWERED**

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 The following is an extract from the equity section of the statement of financial position of Dank Co as at 31 December 20X0.

	\$
Share capital (\$0.5 shares)	100,000
Share premium	50,000

During the year ended 31 December 20X1, Dank Co issued 100,000 \$0.5 ordinary shares for \$3 each.

What will be the balance on the share premium account as at 31 December 20X1?

\$ _____

- 2 **Which one of the following errors would result in a trial balance imbalance?**

- A The discounts allowed balance was listed as a credit on the trial balance
- B Dividends paid were posted to sundry expenses
- C A contra settlement was recorded in the receivables and payables ledgers but not in the control accounts
- D Capital expenditure was posted to repairs

- 3 A business paid insurance premiums of \$18,400 during the year ended 31 March 20X7. At 1 April 20X6 there was an insurance prepayment of \$1,800 and at 31 March 20X7 there was a prepayment of \$1,920.

What was the insurance expense for the year ended 31 March 20X7?

\$ _____

- 4 At 30 June 20X3, a business wrote off two receivables of \$300 and \$2,500 respectively. It also required an allowance for receivables of \$6,361. The balance on the allowance for receivables at 1 July 20X2 was \$8,540.

What is the irrecoverable debt expense for the year ended 30 June 20X3?

\$ _____

- 5 A sole-trader purchased a computer for \$500 for long-term use. They incorrectly posted the following double-entry:

Dr Repairs expense	\$500
Cr Bank	\$500

What type of error is this?

- A Extraction error
 - B Error of omission
 - C Error of commission
 - D Error of principle
- 6 **Which one of the following statements in relation to bank reconciliations is true?**
- A Uncleared lodgements are deducted from the balance on the bank statement
 - B Dishonoured cheques are adjusted for by debiting the cash book
 - C Unrecorded direct credits are adjusted for by debiting the cash book
 - D Bank errors are adjusted for in the cash book

- 7 Slowe Co bought a new building on 1 January 20X1 for \$600,000. It was decided to depreciate this over fifty years on a straight line basis. On 31 December 20X8, the building is revalued to \$700,000.

What is the revaluation surplus that will be recorded in other comprehensive income of Slowe Co for the year ended 31 December 20X8?

\$ _____

- 8 A business makes all of its sales on credit. At 1 January 20X3, there are receivables brought forward from the previous year of \$80,000. During 20X3, cash of \$538,000 was received from customers, Irrecoverable debts of \$400 were written off, and discounts allowed totalled \$850. Receivables at 31 December 20X3 were \$83,000.

What is the value of sales made during 20X3?

\$ _____

- 9 Jane's bank statement shows an overdrawn balance of \$410. This does not agree to the cash book. The following reconciling differences are noted:

- (i) There are unpresented cheques of \$300.
- (ii) The bank debited \$1,000 from Jane's account instead of from Jim's account.
- (iii) Jane has made no accounting entries for bank charges of \$70.

What is the balance on the cash book once it has been corrected?

- A \$1,710 Cr
- B \$290 Dr
- C \$290 Cr
- D \$1,110 Dr

- 10 Which one of the following statements is true?**
- A The trial balance is a book of prime entry
 - B All sales are recorded in the sales day book
 - C Prompt payment discounts are recorded in the cash book
 - D Purchase returns are recorded in the journal
- 11 A sales-tax registered business makes sales of \$4,000 (exclusive of sales tax) and buys goods for \$1,100 (inclusive of sales tax). Sales tax is levied at the rate of 10%.**
- What will be the balance on its sales tax ledger account if these are the only transactions to account for?**
- \$ _____
- 12 At 31 December 20X1, a business has an item of inventory which cost \$500 to manufacture. Due to damage, the business will need to spend \$150 to repair the item. Once repaired, the item could be sold for \$600.**
- At what value should the item be included in inventory at the accounting year-end?**
- \$ _____
- 13 Which of the following statements is true?**
- A Accrued income is a liability
 - B Accrued income is an asset
 - C Prepayments are a liability
 - D Accruals are an asset
- 14 A Co is being sued for damages by one of its customers. Legal advisers believe that there is a 30% chance that A Co will lose and have to pay damages of \$400,000.**
- Which of the following is the correct accounting treatment?**
- A The issue is ignored in the financial statements
 - B The issue and estimated damages are disclosed in the financial statements
 - C A provision is required for \$400,000
 - D A provision is required for \$120,000
- 15 A sole trader has not yet accounted for a discount allowed of \$350. When she posts the correct double entry, which one of the following statements is true?**
- A Gross profit and net profit will increase by \$350
 - B Gross profit and net profit will decrease by \$350
 - C Gross profit will be unaffected but net profit will increase by \$350
 - D Gross profit will be unaffected but net profit will decrease by \$350

- 16 A business buys an item of machinery for long-term use. Which of the following is not capital expenditure?**
- A The purchase cost of \$15,000
 - B Delivery fees of \$1,125
 - C \$1,050 spent on a three-year repair and maintenance agreement
 - D \$1,500 incurred on new electrical installations and fittings for the machine

- 17 A trial balance is made up of a list of debit balances and credit balances. Which one of the following statements is correct?**
- A A balanced trial balance proves that no accounting errors have been made
 - B Assets are represented by debit balances
 - C Equity is represented by debit balances
 - D Income is represented by debit balances

- 18** Extracts from the statement of profit or loss of B Co for the year ended 31 July 20X4 are provided below:

	\$
Revenue	2,430,000
Cost of sales	(1,336,500)
Operating profit	340,200

What is the gross profit margin?

- A 25%
 - B 45%
 - C 55%
 - D 14%
- 19** The following is an extract from the statement of financial position of Cee Co as at 31 August 20X5:

	\$
Ordinary share capital (50c shares)	200,000

No new shares were issued during the year-ended 31 August 20X5. On 31 January 20X5, Cee Co paid a dividend to its ordinary shareholders of 5c per share. On 31 July 20X5, Cee Co proposed to pay its ordinary shareholders a dividend of 10c per share.

How much should Cee Co have charged against retained earnings in respect of dividends for the year-ended 31 August 20X5?

\$ _____

- 20** During the year ended 31 October 20X6, Dee Co paid its prior year tax bill of \$153,000. Dee Co had provided \$155,000 in its prior-year financial statements in respect of tax. Dee Co estimated that its tax bill for the profits earned in the year ended 31 October 20X6 was \$160,000.

What is the tax expense in Dee Co's statement of profit or loss for the year ended 31 October 20X6?

\$ _____

- 21** When the individual accounts in Dora's receivables ledger are added up, they total \$308,900. Errors were identified as follows:

- (i) The total of the sales day book was under-cast by \$1,200.
- (ii) A discount allowed of \$600 was recorded in the receivables control account but not in the receivables ledger.

What will be the balance on the receivables ledger after correcting these errors?

\$ _____

- 22** The payables payment period at Jade Co has increased from 36 days to 42 days. Which one of the following is a valid explanation for this increase?

- A Credit terms offered by suppliers have been extended
- B Discounts allowed have not yet been accounted for
- C Jade Co obtained additional short-term finance during the year
- D Jade Co made early payment of trade payables to take advantage of settlement discounts available from suppliers

- 23** A business purchased a car on 1 January 20X3 for \$15,000. It depreciates cars using the straight line method of depreciation of 20% per annum. The business sold the car on 31 December 20X5 for \$5,000.

What is the profit or loss on disposal that was recorded in the statement of profit or loss?

\$ _____

- 24** Colin's business has a year-end of 31 December 20X1. At 1 January 20X1, his opening inventory was \$20,000. He purchased goods at a cost of \$100,000 during the year. Closing inventory as at 31 December 20X1 was \$16,000.

If Colin makes a mark-up of 25%, what is his revenue for the year ended 31 December 20X1?

\$ _____

- 25 Ryan uses the first in first out method of inventory valuation. At 1 May 20X9 he had 24 units in inventory at a total value of \$270. The following inventory purchases were made in May 20X9:

Date

12 May 25 units purchased for \$11.50 each
 23 May 40 units purchased for \$11.40 each

On 25 May, Ryan sold 45 units.

What is the value of Ryan’s inventory at 31 May 20X9?

- A \$508
 - B \$506
 - C \$504
 - D \$502
- 26 **Ardvark Co has a year-end of 31 December 20X1. Which of the following is not an adjusting event?**
- A A major credit customer was declared bankrupt on 3 January 20X2
 - B Inventory which cost \$3,000 was sold for \$2,000 on 5 January 20X2
 - C A fire destroyed the company’s warehouse on 6 January 20X2
 - D On 10 January 20X2, a regulator announces that Ardvark Co must pay a fine of as a result of health and safety regulation breaches that occurred during the year ended 31 December 20X1
- 27 A business sublets surplus office space. During the year ended 30 June 20X5 cash received from tenants was \$283,700.

Rent in arrears and in advance at the beginning and end of the accounting period were as follows:

	<i>In arrears</i>	<i>In advance</i>
	\$	\$
30 June 20X4	13,800	12,400
30 June 20X5	14,700	13,000

What figure for rental income should be included in the statement of profit or loss for the year ended 30 June 20X5?

\$ _____

- 28 On 1 July 20X1, Fex Co began the development of a new solar mobile phone charger and incurred expenditure of \$100,000 per month.

On 1 February 20X2, Fex Co firmly believes that it has sufficient knowledge and resources to finish the product. At that date, market research demonstrated that there will probably be a high demand for the new solar charger.

How much can be capitalised in the year ended 30 June 20X2 in respect of development activities?

\$ _____

- 29 Which one of the following statements provides the most appropriate definition of a liability?**
- A An obligation of the entity that arose from a past transaction or event
 - B An obligation of the entity that will arise from a future transaction or event
 - C A resource controlled by an entity that arose from a past transaction or event
 - D A resource controlled by an entity that will arise from a future transaction or event
- 30 A business makes a mark-up of 25% on goods sold. What is the gross profit margin?**
- A 20%
 - B 25%
 - C 80%
 - D 16%
- 31 In respect of a sales tax registered business, which of the following statements is true?**
- A Sales tax on purchases is an expense in the statement of profit or loss
 - B Sales tax is always a liability on the statement of financial position
 - C Sales tax is always an asset on the statement of financial position
 - D Revenue should be recorded net of sales tax
- 32** When completing his final accounts, Jerome identified that he had overstated a year-end prepayment.
- When the error is corrected, what will be the effect on Jerome's net profit and capital?**
- | | <i>Net profit</i> | <i>Net assets</i> |
|---|-------------------|-------------------|
| A | Increased | Increased |
| B | Increased | Decreased |
| C | Decreased | Increased |
| D | Decreased | Decreased |
- 33** In the prior financial year, Prank Co had a gross profit margin of 9%. In the current financial year, the gross profit margin has increased to 16%.
- Which of the following might explain this movement?**
- A The volume of sales has been higher in the current year
 - B Prompt payment discounts received have been higher in the current year
 - C There have been higher levels of inventory obsolescence in the current year
 - D The mix of products sold in the current year has changed

- 34** Dee Co had a draft profit after tax for the year of \$1,000,000. During the year, Dee Co paid a dividend of 6c per share. Dee Co has issued share capital of \$500,000 which consists of ordinary shares of 50c each.

What is the profit after tax for the year after accounting for the dividend paid?

\$ _____

- 35** Which of the following should not be credited to the receivables control account?

- A Sales returns
- B Refunds of customer over-payments
- C Contras
- D Irrecoverable debts

SECTION B

BOTH QUESTIONS ARE COMPULSORY AND MUST BE ANSWERED

Please write your answer within the answer booklet in accordance with the detailed instructions provided within each of the questions in this section of the exam paper.

- 1 Hunt Co acquired 80% of the issued equity capital of Safari Co on 1 October 20X5. At that date, Safari Co had issued equity share capital of 5,000,000 shares of \$1 each and a share premium of \$1,000,000. In exchange for acquiring the shareholding in Safari Co, Hunt Co issued five equity shares of \$1 each for every four shares acquired.

At 1 October 20X5, the fair value of Hunt Co's equity shares was \$2.50 per share and the fair value of the non-controlling interest in Safari Co was \$2,000,000.

The statement of profit and loss for the year ended 30 June 20X6 for Hunt and Safari were as follows:

	<i>Hunt Co</i>	<i>Safari Co</i>
	\$000	\$000
Revenue	21,250	14,940
Cost of sales	(5,310)	(8,300)
	<hr/>	<hr/>
Gross profit	15,940	6,640
Distribution costs	(1,300)	(960)
Administration expenses	(1,150)	(680)
	<hr/>	<hr/>
Profit before tax	13,490	5,000
Income tax charge	(3,230)	(1,000)
	<hr/>	<hr/>
Profit after tax	10,260	4,000
	<hr/>	<hr/>

The following information is relevant to the preparation of the consolidated financial statements:

- On 1 July 20X5, the retained earnings of Safari Co were \$2,000,000. The profit after tax of Safari Co for the year ended 30 June 20X6 accrued evenly throughout the year.
- At the acquisition date, the fair value of buildings owned by Safari Co exceeded their carrying value by \$1,000,000. (Ignore any additional depreciation charge that may be necessary on these assets.)
- During the post-acquisition period, Hunt Co sold goods to Safari Co for \$500,000 which included a mark-up on cost of twenty-five per cent. One quarter of the goods remain in the inventory of Safari Co at 30 June 20X6.

Required:

- (a) Calculate goodwill on acquisition of Safari Co for inclusion in the Hunt Co group accounts for the year ended 30 June 20X6. (3 marks)
- (b) Prepare the group statement of profit or loss for the Hunt Co group for the year ended 30 June 20X6. (12 marks)

(Total 15 marks)

2 The trial balance for Tomkinson, a sole trader, as at 30 September 20X2 is presented below:

	<i>Dr</i>	<i>Cr</i>
	\$	\$
Revenue		675,460
Purchases	350,184	
Administrative expenses	115,603	
Distribution expenses	62,476	
Plant and machinery – cost	285,000	
Plant and machinery – accumulated depreciation at 1 October 20X1		115,690
Trade receivables	67,437	
Allowance for receivables – 1 October 20X1		5,000
Inventory – 1 October 20X1	57,361	
Drawings	23,000	
Trade payables		50,580
Capital account – 1 October 20X1		117,581
Cash	3,250	
	964,311	964,311

The following information is relevant to the preparation of the financial statements:

- At 30 September 20X2, inventory had a cost of \$56,287 and a net realisable value of \$52,140.
- The allowance for receivables should be increased to \$7,500.
- Plant and machinery is depreciated on a straight-line basis at a rate of 15% per annum. Depreciation should be charged to cost of sales.
- An accrual of \$2,300 should be made for fuel and power costs which are accounted for within cost of sales.
- A prepayment of \$1,250 should be accounted for insurance paid in advance. Insurance expenses are accounted for within administrative expenses.
- During the year, Tomkinson was sued by a customer for selling a defective product which resulted in the customer suffering injury. Legal advisors have advised that it is probable that Tomkinson will need to pay compensation of \$5,000 to the customer to settle the legal claim. This should be classified as an administrative expense.

Required:

Prepare the statement of profit or loss for the year ended 30 September 20X2 and the statement of financial position of Tomkinson at 30 September 20X2.

(Total 15 marks)