Subject: F3 Financial Accounting
Lecturer: Edgar Wong
Lecture: Mock Exam
1. What is the accounting equation for capital employed?
   A current assets - current liabilities
   B fixed assets + current assets - current liabilities
   C fixed assets + current assets + current liabilities

   ( )

   (1 mark)

2. A business sells some of its inventory for $80 on credit to a customer. The inventory originally cost $50. Which statement actually reflects the effect of this transaction on the Balance Sheet?

   current assets          owner's capital
   A decrease by $30       decreases by $30
   B decrease by $30       increases by $30
   C increase by $30       increases by $30
   D increase by $30       decreases by $30

   ( )

   (2 marks)

3. Which item is revenue expenditure?
   A cost of repairs to factory plant and machinery
   B legal fees for the purchase of new factory premises
   C wages of a company's own workmen for building an office extension

   ( )

   (1 mark)
4. In the cash book of a company the bank account showed a credit balance of $5,000. There were unpresented cheques amounting to $1,500. The bank statement showed bank charges of $700 not in the cash book.

What is the balance on the bank statement?

A $3,300 debit  
B $4,200 debit  
C $4,200 credit  
D $5,800 credit

5. A business increases its allowance for receivables by $1,600. What will be the effect of this adjustment on the final accounts?

<table>
<thead>
<tr>
<th>net profit</th>
<th>net debtors</th>
</tr>
</thead>
<tbody>
<tr>
<td>A decrease by $1,600</td>
<td>decrease by $1,600</td>
</tr>
<tr>
<td>B decrease by $1,600</td>
<td>increase by $1,600</td>
</tr>
<tr>
<td>C increase by $1,600</td>
<td>decrease by $1,600</td>
</tr>
<tr>
<td>D increase by $1,600</td>
<td>increase by $1,600</td>
</tr>
</tbody>
</table>

6. FRS 38 sets out a certain hierarchy for determining the fair value of an intangible asset. Please rank the following from the most reliable estimate to the least reliable estimate.

i The quoted market price of an identical intangible asset in an active market.

ii Apply specific valuation techniques.

iii If no active market exists for an intangible asset, observable prices of similar intangible assets in recently completed transactions may be used.

A i, iii and ii  
B iii, i and ii  
C ii, i and iii  
D ii, iii and i

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7. There is great uncertainty about the continuance of a business. This has caused the proprietor to make a large reduction in the valuation of the year-end inventory.

Which accounting concept does this illustrate?

A going concern  
B matching  
C materiality

(  )

(1 mark)

8. The table shows information from the books of a business at 30 April 2012.

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit sales invoiced during financial year</td>
<td>79,000</td>
</tr>
<tr>
<td>Goods sent to customers on 28 April 2009 and invoiced 4 May 2009</td>
<td>6,100</td>
</tr>
<tr>
<td>Goods sent to customers during April 2009 on sale or return basis but not sold by 30 April 2009</td>
<td>8,300</td>
</tr>
</tbody>
</table>

What is the amount to be credited to the sales account for the year ended 30 April 2012?

A $76,800  
B $85,100  
C $85,300  
D $93,400

(  )

(2 marks)
9. The balance on a Sales Ledger Control account is $40,000. The following items are then discovered by Mun Wai:-

- Total of sales day book understated: $500
- Discounts allowed not entered in Sales Ledger Control account: $1,200
- Bad debts written off not recorded in Sales Ledger Control account: $400
- Allowance for receivables: $2,500

What is the total of the balances in the sales ledger?

A $37,900  
B $38,600  
C $38,900  
D $41,100

(2 marks)

10. The trial balance of a business does not agree. The difference has been entered in a Suspense account.

The error was caused by a cheque for $400 from Omar being debited to Omar’s account. What is the journal entry to correct this?

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank account</td>
<td>Suspense account</td>
<td>$400</td>
</tr>
<tr>
<td>Suspense account</td>
<td>Omar’s account</td>
<td>$400</td>
</tr>
<tr>
<td>Suspense account</td>
<td>Omar’s account</td>
<td>$800</td>
</tr>
<tr>
<td>Suspense account</td>
<td>Bank account</td>
<td>$800</td>
</tr>
</tbody>
</table>

(2 marks)
11. On 6 January 2009 a firm lost all its inventory in a fire. Inventory had a Balance Sheet valuation of $650,000 on 31 December 2011.

In the period 1 - 5 January 2012 purchases were $75,000 and sales were $96,000.

The average gross profit the firm makes is 25% of selling price. What was the value of the inventory on 5 January?

A $629,000  
B $647,000  
C $653,000  
D $671,000  

(2 marks)

12. Which asset may not need to be depreciated?

A land  
B a revalued property  

(1 mark)

13. Under which heading should negative Goodwill be included in a company’s Statement of Financial Position?

A capital reserves  
B intangible fixed assets  
C share capital  

(1 mark)
14. How should the revaluation of a non current asset be treated in a cash flow statement?
   A It should be included in the cash flow from financing activities.
   B It should be included in the cash flow from investing activities.
   C It should be included in the cash flow from operations.
   D It should not be included in the cash flow statement.

   (   )

   (2 marks)

15. For which purpose can a Share Premium account legally be used?
   A to make a rights issue
   B to write off preliminary expenses

   (   )

   (1 mark)

16. A business with net tangible assets of $110,000 is purchased by a company for $150,000.

   The company completes the transaction by a cash payment of $20,000 and an issue of its $0.50 ordinary shares, fully paid, at $1.30 each.

   By how much will the balance on the company's Ordinary Share Capital account increase?
   A $50,000
   B $90,000
   C $100,000
   D $130,000

   (   )

   (2 marks)
17. A limited company purchases a business by issuing 320,000 $1.00 ordinary shares at a premium of $0.75 per share. Goodwill of $150,000 arises on the purchase.

What is the fair value of the separable net assets?

A $170,000  
B $410,000  
C $560,000  
D $710,000  

(2 marks)

18. The table shows an extract from the Statement of Financial Position of Jingle Pte Ltd.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible non current asset: Goodwill</td>
<td>20,000</td>
</tr>
<tr>
<td>Tangible non current assets</td>
<td>162,000</td>
</tr>
<tr>
<td>Net current assets</td>
<td>58,000</td>
</tr>
<tr>
<td></td>
<td>240,000</td>
</tr>
</tbody>
</table>

Edgarese Ltd offers to buy Jingle and to pay for the non current assets and net current assets at Balance Sheet values. The purchase price is agreed at $200,000.

What will appear in Edgarese's Statement of Financial Position after the acquisition?

A Capital Reserve $20,000  
B Capital Reserve $40,000  
C Goodwill $20,000  
D Goodwill $40,000  

(2 marks)
19. Which accounting policy is not required to be disclosed in published company accounts?
   A basis of calculation of allowance of receivables
   B basis of calculation of cost and net realisable value of inventories
   C depreciation methods used
   D treatment of Goodwill
   (   )
   (2 marks)

20. What must be disclosed in the Report of the Directors?
   A accounting policies
   B directors' interests in shares of the company
   (   )
   (1 mark)

21. Certain information must be disclosed in the notes to the financial statements. To which of the following does this rule not apply?
   A estimated useful life of asset
   B method of depreciation used
   C scrap value of asset
   D total depreciation for period
   (   )
   (2 marks)

22. What is the main purpose of Accounting Standards?
   A to prevent unqualified accountants from preparing company accounts
   B to provide useful information for shareholders
   C to reduce the range and variety of financial accounting practices
   D to provide materials for students to review
   (   )
   (2 marks)
23. What is an example of a method used to “window dress” financial statements?

A accepting orders from new, high-risk customers  
B anticipating profits on long-term contracts  
C delaying payments to suppliers  
D having an excessive gearing ratio  

( )

(2 marks)

24. The following information relates to a business for a period.

$ 

<table>
<thead>
<tr>
<th>selling price per unit</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>variable costs per unit</td>
<td>60</td>
</tr>
<tr>
<td>total fixed costs</td>
<td>90,000</td>
</tr>
<tr>
<td>net profit</td>
<td>15,000</td>
</tr>
</tbody>
</table>

How many units were sold in the period?

A 1,500  
B 1,750  
C 2,250  
D 2,625  

( )

(2 marks)
25. A customer paid a deposit in advance for goods to be supplied at a later date.

How should this be recorded in the seller’s books?

<table>
<thead>
<tr>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>A cash</td>
<td>customer</td>
</tr>
<tr>
<td>B cash</td>
<td>sales</td>
</tr>
<tr>
<td>C customer</td>
<td>prepayment</td>
</tr>
</tbody>
</table>

(1 mark)

26. A trial balance at 30 April 2009, before making end of year adjustments, showed:-

<table>
<thead>
<tr>
<th>Account</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade debtors</td>
<td>17,800</td>
<td></td>
</tr>
<tr>
<td>Allowance for receivables</td>
<td></td>
<td>580</td>
</tr>
</tbody>
</table>

At 30 April 2009 it was decided to write off a bad debt of $800 and to make an allowance of receivables of 2% of trade debtors.

During the year an amount of $200 was received from a customer relating to a debt that was written off in the year ended 30 April 2008.

What was the total bad and doubtful debts expense for the year ended 30 April 2009?

A $360  
B $560  
C $940  
D $1,140  

(2 marks)
27. The table shows information relating to a company's non current assets.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost at 1 January 2012</td>
<td>$10,500</td>
</tr>
<tr>
<td>Accumulated depreciation at 1 January 2012</td>
<td>4,900</td>
</tr>
<tr>
<td>Purchases for the year ended 31 December 2012</td>
<td>2,500</td>
</tr>
<tr>
<td>Disposals for the year ended 31 December 2012</td>
<td>700</td>
</tr>
</tbody>
</table>

Depreciation is 25% per annum on the reducing balance basis.

What is the depreciation charge for the year?

A $1,850  
B $2,025  
C $2,200  
D $3,250  

(2 marks)

28. A business that purchases a shop incurs the following costs.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase price of the shop</td>
<td>$680,000</td>
</tr>
<tr>
<td>Legal fees incurred in the purchase of the shop</td>
<td>7,200</td>
</tr>
<tr>
<td>Cost of initial inventory</td>
<td>12,500</td>
</tr>
<tr>
<td>Cost of installing a power generator</td>
<td>47,300</td>
</tr>
</tbody>
</table>

Which amount will be capitalised as the cost of the shop?

A $680,000  
B $687,200  
C $734,500  
D $747,000

(2 marks)
29. Which of the following is the definition of a business as a going concern?

A  The assets owned by the business exceed its liabilities.
B  The business has accumulated revenue reserves.
C  The business is currently liquid and able to pay its creditors.
D  The business will continue in operational existence for the foreseeable future.

(   )

(2 marks)

30. A sole trader pays private expenses from the business bank account and records them as drawings.

Which accounting principle is applied?

A  business entity
B  going concern
C  matching

(   )

(1 mark)

31. Which of the following would prevent a trial balance from balancing?

A  a credit note from a supplier entered in the sales journal
B  a discount allowed posted to the Discounts Received account
C  an invoice entered twice in the sales journal
D  a refund to a customer wrongly posted to Discounts Allowed account

(   )

(2 marks)
32. At 31 March 2012, a customer's bank statement shows that his bank account is overdrawn by $10,136.

Further information is as follows.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheques drawn, not presented</td>
<td>$4,998</td>
</tr>
<tr>
<td>Cheques paid in, not credited</td>
<td>$5,896</td>
</tr>
<tr>
<td>Bank interest charged, not in Cash Book</td>
<td>$181</td>
</tr>
</tbody>
</table>

What is the adjusted bank balance to be shown in the customer's Statement of Financial Position at 31 March 2012?

A $9,057 overdrawn  
B $9,238 overdrawn  
C $10,853 overdrawn  
D $11,034 overdrawn  

(2 marks)

33. The balance on the Sales Ledger Control account amounting to $43,000 has been entered in the trial balance as $34,000. The difference on the trial balance has been entered in a Suspense account.

Which journal entry is required to correct the error?

<table>
<thead>
<tr>
<th>Account to be debited</th>
<th>Account to be credited</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Sales Ledger Control</td>
<td>Suspense account</td>
<td>$9,000</td>
</tr>
<tr>
<td>B -</td>
<td>Suspense account</td>
<td>$9,000</td>
</tr>
<tr>
<td>C Suspense account</td>
<td>-</td>
<td>$9,000</td>
</tr>
<tr>
<td>D Suspense account</td>
<td>Sales Ledger Control</td>
<td>$9,000</td>
</tr>
</tbody>
</table>

(2 marks)
34. A company uses the straight line method of depreciation for all its non current assets. On 1 January, the company bought machinery on hire purchase. The cash price was $115,000 and the interest for the year is $19,550. The estimated useful life of the machinery is five years with no residual value. What is the charge for depreciation for the year ended 31 December?

A $19,090  
B $23,000  
C $26,910  
D $42,550

( )

(2 marks)

35. Wong Mun acquired 60% of the share capital of Sinar Emas Ltd on 31 March 2012. The share capital and reserves of Sinar Emas Ltd as at 31 December 2012 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares @ 1,600,000 shares</td>
<td>400,000</td>
</tr>
<tr>
<td>Revenue Reserve @ 1 Jan 2012</td>
<td>120,000</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>60,000</td>
</tr>
<tr>
<td>Total</td>
<td>580,000</td>
</tr>
</tbody>
</table>

The profits of Sinar Emas Ltd have accrued evenly throughout 2012. The goodwill on consolidation is $3,000. What is the cost of the investment in Sinar Emas Ltd in the Statement of Financial Position of Wong Mun as on 31 Dec 2012?

A $318,000  
B $324,000  
C $336,000  
D $342,000

( )

(2 marks)
36. A business was started on 1 January. The purchases and sales of inventory for January were:-

<table>
<thead>
<tr>
<th>Date</th>
<th>Purchases</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 January</td>
<td>3 @ $200</td>
<td>-</td>
</tr>
<tr>
<td>13 January</td>
<td>-</td>
<td>2 @ $400</td>
</tr>
<tr>
<td>26 January</td>
<td>3 @ $250</td>
<td>-</td>
</tr>
<tr>
<td>28 January</td>
<td>-</td>
<td>2 @ $400</td>
</tr>
</tbody>
</table>

The business used the first in first out (FIFO) method of inventory valuation.

What was the gross profit for January?

A $650  
B $700  
C $750  
D $1,150  

(2 marks)

37. A company has an issued share capital of 1.6 million $0.25 ordinary shares. The directors have proposed to pay a dividend totalling $40,000.

Which correctly describes the amount of dividend?

A an ordinary dividend of 10%  
B an ordinary dividend of 2.5 cents per share  
C an ordinary dividend of $0.02 per share  
D an ordinary dividend of $0.10 per share  

(2 marks)
38. A company is financed by:-

10,000 $1 ordinary shares
$5,000 10% loan

Net profit before interest and taxation is $2,500. Tax payable is $400.

What is the maximum dividend per share payable from this year's profits?

A $0.16  
B $0.20  
C $0.21  
D $0.25  

(2 marks)

39. When a shareholder sells some shares for less than he paid for them, what will happen to the share capital of the company?

A It will fall by the nominal value of the shares sold.  
B It will fall by the net sales proceeds of the shares sold.  
C It will increase by the amount received from the sale of the shares.  
D It will remain the same as before.

(2 marks)

40. The table shows opening and closing balances for the Rent Receivable account.

<table>
<thead>
<tr>
<th></th>
<th>start of year ($)</th>
<th>end of year ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>rent received in advance</td>
<td>4,200</td>
<td>1,600</td>
</tr>
<tr>
<td>rent due in arrears</td>
<td>2,000</td>
<td>2,400</td>
</tr>
</tbody>
</table>

During the year, $111,000 rental income was received.

What is the total rental income for the year?

A $110,600  
B $111,000  
C $112,800  
D $114,000  

(2 marks)
41. Under FRS37, a constructive obligation is an obligation that is:-

A. defined in a contract through its explicit or implicit terms

B. derives from an established pattern of past practice, published policies or a sufficiently specific current statement and as a result, the enterprise has created a valid expectation on the part of those other parties that it will discharge those responsibilities

C. a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise

D. not defined by terms in a contract

(2 marks)

42. Under FRS37, a restructuring is a programme that:-

I. is planned and controlled by management

II. changes the scope of a business undertaken by an enterprise

III. has a material impact to its financials

IV. must have 75% approval from shareholders

A. I, II and III
B. I, II and IV
C. II, III and IV
D. All of the above.

(2 marks)

43. When preparing a sole trader's annual accounts, no adjustments were made for closing amounts prepaid. What is the effect of these omissions?

A. net profit overstated creditors understated
B. net profit understated creditors understated
C. current assets overstated owner's capital overstated
D. current assets understated owner's capital understated

(2 marks)
44. When can an entity test goodwill for impairment?

i. At least once a year at any date.
ii. At least once a year, to be performed at the same time every year.
iii. Whenever there is an indication of impairment occurring
iv. No impairment testing allowed. Apply amortisation over useful life.

A. i
B. ii and iii
C. i, ii and iii
D. iv

(2 marks)

45. Inventories should be valued at the lower of cost and net realisable value.

The table shows data about four products.

<table>
<thead>
<tr>
<th>Product</th>
<th>W</th>
<th>X</th>
<th>Y</th>
<th>Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of units</td>
<td>5</td>
<td>20</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Cost per unit ($)</td>
<td>18</td>
<td>19</td>
<td>17</td>
<td>23</td>
</tr>
<tr>
<td>Realisable value per unit ($)</td>
<td>15</td>
<td>28</td>
<td>17</td>
<td>26</td>
</tr>
<tr>
<td>Selling expenses per unit ($)</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

At how much should the total inventories be valued?
A. $840
B. $845
C. $750
D. $860

(2 marks)

46. What will not always be classified in a Statement of Financial Position?

A. preference shares
B. prepaid expense
C. proposed dividend

(1 mark)
47. A company reported a profit of $15,000 for the year, after charging the following:

- depreciation $2,500
- loss on sale of assets $1,000

During the year there was a decrease in working capital of $500.

What was the net cash flow generated from operating activities?

A $12,000  
B $17,500  
C $18,000  
D $19,000

(2 marks)

48. In a Cash Flow statement, which item is a cash outflow?

A a decrease in inventory  
B a decrease in trade debtors  
C a decrease in trade creditors  
D an issue of bonus shares

(2 marks)
49. Interest on drawings of $100 is to be charged to Joe, a partner of Al’s Brothers Partnership. 

The accounting entries are:-

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Current Account – Joe</td>
<td>Appropriation Account</td>
</tr>
<tr>
<td>B. Appropriation Account</td>
<td>Current Account – Joe</td>
</tr>
<tr>
<td>C. Income Statement</td>
<td>Current Account – Joe</td>
</tr>
<tr>
<td>D. Current Account – Joe</td>
<td>Income Statement</td>
</tr>
</tbody>
</table>

(2 marks)

50. Which of the statement(s) is/are correct?

i. The need to depreciate non current assets arises from the accrual assumption.
ii. Net book value is the net realisable value of an asset.
iii. The objective of charging depreciation is to account for the fall in value of an asset over its life.
iv. Depreciation, being a non-cash item, would help to accumulate cash to replace the aging asset over its useful life.

A. i
B. i and ii
C. i and iii
D. i, ii and iv

(2 marks)