Mock Examination : CAT Paper FFA

Financial Accounting

Session : December 2012

Set by : Mr Wee Zui Kuan
1. In the organisation structure for the regulation and supervision of International Accounting Standards, which of the bodies listed below acts as the overall supervisory body?
   A. International Accounting Standards Committee Foundation
   B. International Accounting Standards Board
   C. Standards Advisory Council
   D. International Financial Reporting Interpretations Committee

2. The International Accounting Standards Board’s (IASB) ‘Framework for the preparation and presentation of financial statements (the Framework)” is the IASB’s conceptual framework. Which one of the following does the Framework NOT cover?
   A. The format of financial statements.
   B. The objective of financial statements.
   C. Concepts of capital maintenance.
   D. The elements of financial statements

3. ‘IASB’ sets out five qualities of reliable financial information in the “Framework for the preparation and presentation of financial statements”. Which are the five characteristics?
   A. Accruals basis, going concern, consistency, prudence, true and fair view
   B. Faithful representation, neutrality, substance over form, completeness, consistency
   C. Prudence, consistency, understandability, faithful representation, substance over form
   D. Substance over form, faithful representation, neutrality, prudence, completeness

4. Which of the following most closely describes the meaning of prudence, as the term is defined in the IASB’s Framework for the preparation and presentation of financial statements?
   (i) Ensuring that financial information has very minimum material error.
   (ii) Understanding assets and gains and overstating liabilities and losses.
   (iii) Ensuring compliance of financial statements to all accounting standards and legal requirements.
   (iv) Using a degree of caution in making estimates required under conditions of uncertainty.
5. Which of the following statements regarding accounting concepts and the characteristics of financial information are correct?

(i) The concept of substance over form means that the legal form of a transaction must be reflected in the financial statements, regardless of the economic substance.
(ii) The historical cost concept means that only items capable of being measured in monetary terms can be recognised in the financial statements.
(iii) It may sometimes be necessary to exclude information that is relevant and reliable from financial statements because it is too difficult for some users to understand.

A. (i) and (ii)  
B. (ii) and (iii)  
C. (i) and (iii)  
D. None of the above

6. Winston wants to calculate his net profit for year end. Which equation should he use?

(i) Opening capital + drawings – capital introduced – closing capital  
(ii) Closing capital + drawings – capital introduced – opening capital  
(iii) Opening capital – drawings + capital introduced – closing capital  
(iv) Opening capital – drawings – capital introduced – closing capital

7. Net assets of Catherine, a trader, as at 01 January 2012 amounted to $195,000. During the year Catherine introduced additional capital of $70,000 and made withdrawals of $50,000. At the end of the year on 31 December 2011, his net assets totalled $248,000. What is Catherine’s total profit or loss for the year ended 31 December 2012?

A. $33,000 profit  
B. $33,000 loss  
C. $73,000 profit  
D. $73,000 loss

8. The accounting equation can change as a result of certain transactions. Which one of the following transactions would not affect the accounting equation?

A. Sales of goods for more than their cost  
B. Purchase non-current asset on credit  
C. The owner withdraws cash  
D. Accounts receivables paying their accounts in full, in cash
9. Jason, a trader is registered for sales tax purposes. He received an invoice for goods for resale which cost $900 before sales tax, which is levied at 10%. The total value of the supplier’s invoice was $990. What is the correct entry to be posted in Jason’s general ledger in respect of the invoice?

A. Dr Purchases $900, Dr Sales tax $90, Cr Payables $990
B. Dr Purchases $990, Cr Sales tax $90, Cr Payables $900
C. Dr Purchases $900, Cr Payables $900
D. Dr Purchases $990, Cr Payables $990

10. A book of prime entry is one in which:

A. The rules of double-entry bookkeeping do not apply
B. Ledger accounts are maintained
C. Transactions are entered prior to being recorded in the ledger accounts
D. Subsidiary accounts are kept

11. The following totals appear in the day books for May 2011

<table>
<thead>
<tr>
<th>Account</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales day book</td>
<td>50,000</td>
</tr>
<tr>
<td>Purchases day book</td>
<td>30,000</td>
</tr>
<tr>
<td>Returns inwards book</td>
<td>4,000</td>
</tr>
<tr>
<td>Returns outwards book</td>
<td>8,000</td>
</tr>
</tbody>
</table>

Opening and closing inventories are $3,000 and $6,000 respectively. What is the gross profit for May 2011?

A. $27,000
B. $19,000
C. $20,000
D. $28,000

12. An increase in the allowance for receivables would result in

A. A decrease in liabilities
B. An increase in working capital
C. A decrease in net profit
D. An increase in net profit

13. The purpose of charging depreciation on non-current assets is

A. To put money aside to replace the assets when required
B. To show the assets in the statement of financial position at their fair value
C. To ensure that the profit is not understated
D. To spread the cost of the assets over their estimated useful life
14. A machine purchased for $13,000 on 01 January 2001, had an expected life of four years and a residue value of $1,000; the asset was depreciated on straight line basis and the firm's policy is to charge depreciation even in the year of disposal. On 31 December 2003, the machine was sold for $2,800. What amount should be entered in the 2003 Statement of Comprehensive Income for profit or loss on disposal?
   A. Profit of $1,200
   B. Loss of $1,200
   C. Loss of $4,200
   D. Profit of 2,550

15. A company’s closing inventory was overstated by $100,000. What will be the effect of this error if it remains uncorrected?
   A. The current year’s profit will be overstated & next year’s profit will be understated
   B. The current year’s profit will be understated but there will no effect on next year’s profit
   C. The current year’s profit will be understated & next year’s profit will be overstated
   D. The current year’s profit will be overstated but there will be no effect on next year’s profit

16. In the preparation of final accounts, the cost of items in closing inventory is $52,575 and it includes some items costing $2,500 which was damaged. You have estimated that it will cost $480 to repair the items and they can then be sold for $1,800. What is the correct inventory valuation for inclusion in the final accounts?
   A. $50,075
   B. $51,395
   C. $51,795
   D. $50,255

17. Which of the following best describes the definition of Property, Plant and Equipment, based on the provisions of IAS16?
   A. Any assets held by an enterprise for more than one accounting period for use in the production or supply of goods or services, for rental to others, or for administrative purposes
   B. Tangible assets held by an enterprise for more than 12 months for use in the production or supply of goods or services, for rental to others, or for administrative purposes
   C. Tangible assets held by an enterprise for more than one accounting period for use in the production or supply of goods or services, for rental to others, or for administrative purposes
   D. Any assets held by an enterprise for more than 12 months for use in the production or supply of goods or services, for rental to others, or administrative purposes
18. Liverpool purchased a piece of development land for $600,000 on 30 June 2001. The land was revalued on 30 June 2005 to $800,000. The latest valuation report dated 30 June 2009 values the land at $550,000. Liverpool has adjusted the land balance shown in the non-current assets at 30 June 2009. Which ONE of the following shows the correct debit entry in Liverpool’s financial statement for the year ended 30 June 2009?
A. Dr Revaluation reserve $50,000 and Cr Income statement $200,000
B. Dr Revaluation reserve $250,000
C. Dr Revaluation reserve $200,000 and Dr Income statement $50,000
D. Dr Income statement $250,000

19. Which of the following statements about research and development expenditure are correct?
1. Research expenditure, other than capital expenditure on research facilities, should be recognised as an expense as incurred.
2. Development expenditure has more probability of achieving future economic benefits to be recognised as an asset.
3. Development expenditure recognised as an asset must be amortised over a period not exceeding five years.
A. 1, 2 and 3
B. 1 and 2 only
C. 1 and 3 only
D. 2 and 3 only

20. At 31 December 2011, a company has diesel in hand for running its machines costing $8,900 and an unpaid diesel bill for $3,800. At 31 December 2012, the diesel in hand was $9,500 and there was an outstanding diesel bill of $3,600. Payments made for diesel during the year ended 31 December 2012 totalled $33,900. Based on these figures, what amount should appear in the company’s statement of comprehensive income for diesel for the year?
A. $22,900
B. $34,700
C. $44,900
D. $33,100

21. A company pays rent quarterly in arrears on 01 January, 01 April, 01 July and 01 October each year. The rent was increased from $9,000 per year to $12,000 as of 01 October 2008. What rent expense and accruals should be included in the company’s financial statements for the year ended 31 January 2009?

<table>
<thead>
<tr>
<th>Rent expense</th>
<th>Accruals</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>$10,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>$9,750</td>
<td>$1,000</td>
</tr>
<tr>
<td>$9,750</td>
<td>$2,200</td>
</tr>
</tbody>
</table>
22. MacKenzie's draft financial accounts for the year to 30 June 2010 report a loss of $2,950. When he prepared the accounts, Steven did not include an accrual of $2,100 and a prepayment of $1,050. What is Steven's profit or loss for the year to 30 June 2010 following the inclusion of the accrual and prepayment?

A. A loss of $200
B. A loss of $4,000
C. A loss of $6,100
D. A profit of 200

23. At 01 April 2003, a company's allowance for trade receivables totalled $93,000. During the year ended 31 March 2004, debts totalled $155,000 were written off. At 31 March, management decided that a receivables allowance of $228,000 was required.

What figure should appear in the company's statement of comprehensive income for the year ended 31 March 2004 for receivables expense?

A. $166,000
B. $383,000
C. $290,000
D. $63,000

24. Which of the following is not the purpose of a sales ledger control account?

A. A sales ledger control account ensures that there are no errors in the personal ledger
B. Control Accounts deter fraud
C. A sales ledger control account provides a check on the arithmetical accuracy of the personal ledger
D. A sales ledger control account helps to locate errors in the trial balance

25. Which of the following(s) is/are the general principles that IAS37 applies to the recognition of a provision?

1. An entity has a present obligation (legal or constructive) as a result of past events
2. It is probable that a transfer of economic benefits will be required to settle the obligation
3. A reliable estimate can be made of the amount of the obligation

A. 1 and 3
B. 1 and 2
C. 2 and 3
D. All of the above
26. Which one of the following statements about the requirements of IAS37 
Provisions contingent liabilities and contingent assets are correct?
1. A contingent asset should be disclosed by note if an inflow of economic 
benefits is probable.
2. No disclosure of a contingent liability is required if the possibility of 
transfer of economic benefits arising is remote.
3. Contingent liabilities must not be recognised in financial statements unless 
an inflow of economic benefits is virtually certain to arise.

A. 2 and 3 only  
B. 1 and 3 only  
C. 1 and 2 only  
D. All 3 statements are correct

27. The following receivables ledger control account prepare by a trainee 
accountant contains a number of errors:

<table>
<thead>
<tr>
<th>Receivables Ledger Control Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1</td>
</tr>
<tr>
<td>01 Jan Balance b/f 614,000</td>
</tr>
<tr>
<td>31 Jan Cash received 311,000</td>
</tr>
<tr>
<td>Contras against amounts</td>
</tr>
<tr>
<td>Due to suppliers in</td>
</tr>
<tr>
<td>Payables ledger 8,650</td>
</tr>
<tr>
<td>Discount allowed 3,400</td>
</tr>
<tr>
<td>Irrecoverable debts w/o 32,000</td>
</tr>
<tr>
<td>Interest charged on</td>
</tr>
<tr>
<td>Overdue accounts 1,600</td>
</tr>
<tr>
<td>Balance c/f 595,650</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>933,650</td>
</tr>
<tr>
<td>=====</td>
</tr>
</tbody>
</table>

What should be the closing balance on the control account be after the 
errors in it have been corrected?
A. $561,550  
B. $578,850  
C. $581,550  
D. $568,350

28. Which of the following is not required by IAS 1 (revised) as an item to include 
in the notes to the accounts?
A. A statement that the entity is a going concern.  
B. A statement of compliance with International Financial Reporting 
Standards.  
C. The dividends declared or proposed before the publication of the financial 
statements but not included in the statements as a distribution to 
shareholders in the period.  
D. The key source of estimation uncertainty in the financial statements.
29. A suspense account shows a credit balance of $480.
This could be due to
A. Omitting a sale of $480 from the sales ledger
B. Recording a purchase of $480 twice in the purchases account
C. Failed to write off a bad debts of $480
D. Recording an electricity bill paid of $240 by debiting the bank account and crediting the electricity account

30. At 01 April 20X9, the payables ledger control account showed a balance of $142,320. At the end of April 20X9, the following totals are extracted from the subsidiary books for April.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases day book</td>
<td>183,800</td>
</tr>
<tr>
<td>Returns outwards day book</td>
<td>27,490</td>
</tr>
<tr>
<td>Returns inwards day book</td>
<td>13,240</td>
</tr>
<tr>
<td>Payments to payables, after deducting $1,430 cash discount</td>
<td>196,360</td>
</tr>
</tbody>
</table>

It is also discovered that:
(a) The purchase day book figure is net of sales tax at 17.5%; the other figures all include sales tax
(b) A customer's balance of $2,420 has been offset against his balance of $3,650 in the payables ledger
(c) A supplier's account in the payables ledger, with a debit balance of $800, has been included on the list of payables as a credit balance.

What is the corrected balance on the payables ledger control account?
A. $130,585
B. $144,835
C. $98,429
D. $128,985

31. Steve's bank statement shows an overdrawn balance of $38,600 on 30 June 2008. Checking against the company’s cash book revealed the following differences:-
(1) Bank charges of $200 have not entered in the cash book.
(2) Lodgements of $14,700 recorded on 30 June 2008 but credited by the bank on 2 July 2008.
(4) A cheque payment to a supplier of $4,200 charged to the account in June 2008 was recorded in the cash book as a receipt.

Based on the information, what was the cash book balance before any adjustments?
A. $43,100 overdrawn
B. $16,900 overdrawn
C. $34,100 overdrawn
D. $47,300 overdrawn
32. Christopher’s trial balance was extracted as at 31 July 2007, the total of the debit balances was $2,000 more than the total credit balances.

**Which of the following errors could explain the difference?**
- A. Cash receipt of $2,000 was not recorded in the books of accounts.
- B. Purchase of goods worth $1,000 was recorded twice in the books of account
- C. Commission received of $1,000 was entered on the debit side of both the commission received account and the cash account.
- D. Discount received of $2,000 was entered on the debit side of both the discount received account and the payable ledger.

33. A suspense account was opened when a trial balance failed to agree. The following errors were later discovered.
1. A gas bill of $420 has been recorded in the gas account as $240
2. A discount of $50 given to a customer had been credited to discounts received
3. Interest received of $70 had been entered in the bank account only

What was the original balance on the suspense account?
- A. Debit $210
- B. Credit $420
- C. Debit $160
- D. Credit $160

34. Revenue reserves would decrease if a company:
- A. Sets aside profits to purchase future non-current assets
- B. Transfers amount into general reserve
- C. Issues shares at a premium
- D. Pays dividend

35. At 31 December 20X1 the capital structure of a company was as follows:

**Ordinary share capital**

<table>
<thead>
<tr>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000 shares of 50c each</td>
</tr>
<tr>
<td>Share premium account</td>
</tr>
</tbody>
</table>

During the year 20X2, the company made a bonus issue of 1 share for every 2 held, using the share premium account for the purpose and later issue for cash another 60,000 shares at 80c per share

What is the company’s capital structure at 31 December 20X2?

<table>
<thead>
<tr>
<th>Ordinary share capital</th>
<th>Share premium account</th>
</tr>
</thead>
<tbody>
<tr>
<td>$130,000</td>
<td>$173,000</td>
</tr>
<tr>
<td>$105,000</td>
<td>$173,000</td>
</tr>
<tr>
<td>$130,000</td>
<td>$137,000</td>
</tr>
<tr>
<td>$105,000</td>
<td>$137,000</td>
</tr>
</tbody>
</table>
36. According to International Financial Reporting Standards which of the following statements about financial statements are correct?

1. The direct or indirect method may be used to prepare Net cash flow from operating activities. Both methods lead to the same figure.
2. Loan notes can be classified as current or non-current liabilities.
3. Financial statements must disclose a company’s total expense for depreciation, if material.
4. A company must disclose by note details of all adjusting events allowed for in the financial statements.

A. 1, 2 and 3 only
B. 2 and 4 only
C. 3 and 4 only
D. All of the above

37. The financial statements of Aberdeen PLC were approved by the Board of Directors on 01 February 2010. As per **IAS10 Events after the reporting period**, which of the following would be an adjusting item in the financial statements as at 31 December 2009?

1. Identification of a material error in the valuation of inventory.
2. An increase in the market value of investments.
3. The disposal of equipment, which was surplus to the business requirements.
4. Receipt of notification of bankruptcy of a customer with a balance outstanding at year end.

A. 2 and 3 only
B. 1 and 3 only
C. 1 and 4 only
D. All of the above

38. Which of the following is the correct definition of an adjusting event after the reporting period?

A. An event that occurs between the reporting date and the date on which the financial statements are authorised for issue that provides further evidence of conditions that existed at the reporting period date.
B. An event that occurs between the reporting date and the date on which the financial statements are authorised for issue that provides evidence of conditions that arose subsequent to the reporting date.
C. An event that occurs after the date the financial statements are authorised for issue that provides further evidence of conditions that existed at the reporting date.
D. An event that occurs after the date the financial statements are authorised for issue that provides evidence of conditions that arose subsequent to the reporting date.
39. Which one of the following material items after the reporting period and before the financial statements, are approved by the directors and should be adjusted in the financial statements?

(i) A valuation of property providing evidence of impairment in value, at the end of the reporting period.
(ii) Sale of inventory held at the end of the reporting period, for less than cost.
(iii) Discovery of fraud or error affecting the financial statements.
(iv) The insolvency of a customer who has an outstanding debt at the end of the reporting period.

A. All of the above  
B. (i),(ii) and (iii)  
C. (iii) and (iv)  
D. (i),(ii),(iii) and (iv)

40. Which of the following items could appear in a company’s Statement of Cash Flows?

1. Proceeds of the issue of shares.
2. Proposed dividend.
3. Surplus on the revaluation of non-current assets.
4. Irrecoverable debts written off.
5. Dividends received.

A. 1, 3 and 5 only  
B. 1, 2, 4 and 5 only  
C. 1 and 5 only  
D. 2 and 5 only

41. In preparing the company’s Statement of Cash Flows which statement(s) about the calculation of cash inflow from operating activities using the indirect method are correct?

1. Loss on sale of non-current assets should be deducted from net profit before taxation.
2. Increase in inventory should be deducted from operating profits.
3. Increase in payables should be added to operating profits.
4. Depreciation charges should be added to net profit before taxation.

A. 1, 2 and 3 only  
B. 1, 2 and 4 only  
C. 1, 3 and 4 only  
D. 2, 3 and 4 only
42. Melbourne Limited acquired 100% of the ordinary share capital of Hilton Limited on 01 July 2008. On 31 December 2008 the share capital and retained earnings of Hilton Limited were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares of $1 each</td>
<td>500</td>
</tr>
<tr>
<td>Retained earnings at 01 January 2008</td>
<td>100</td>
</tr>
<tr>
<td>Retained profit for the year ended 31 December 2008</td>
<td>80</td>
</tr>
</tbody>
</table>

The profits of Hilton Limited have accrued evenly throughout 2008. Goodwill arising on the acquisition of Hilton Limited was $75,000.

What was the cost of investment in Hilton Limited?
A. $500,000
B. $680,000
C. $755,000
D. $715,000

43. Martin Limited acquired 90% of the 100,000 ordinary share capital of Madison Limited for $300,000 on 01 January 2009 when the retained earnings of Madison were $156,000. At the date of acquisition the fair value of the plant held by Madison was $20,000 higher than its carrying value. The fair value of the non-controlling interest at the date of acquisition was $75,000.

What is the goodwill arising on the acquisition of Madison Limited?
A. $119,000
B. $99,000
C. $170,000
D. $24,000

44. Which of the following statements relating to parent company and subsidiaries are correct?
1. A parent company could consolidate a company in which it holds less than 50% of the ordinary share capital in certain circumstances.
2. Goodwill on consolidation must be amortised over a period not exceeding ten years.
3. Goodwill on consolidation will appear as an item in the parent company’s individual statement of financial position.
4. Consolidated financial statements ignore the legal form of the relationship between parents and subsidiaries and present the results and position of the group as if it was a single entity.

A. 1 and 4
B. 2 and 3
C. 1 and 2
D. 3 and 4
45. Which of the following transactions would result in an increase in capital employed?
   A. Selling inventory at a profit  
   B. Writing off a bad debts  
   C. Receiving cash from a receivable  
   D. Increasing bank overdraft

46. An increase in selling prices may lead to which of the following effects?
   (i) Asset turnover will rise  
   (ii) Profit margins will fall  
   (iii) Profit margins may increase subject to fall in turnover  
   (iv) Return on capital employed will increase

47. Which of the following statements apply when a consolidated statement of financial position is prepared?
   1. All inter-company balances should be eliminated.  
   2. Inter-company profit in year end inventory should be eliminated.  
   3. Closing inventory held by subsidiaries need to be included at fair value.
      A. 1 only  
      B. 1, 2 and 3  
      C. 1, and 2 only  
      D. 3 only

48. Which of the following statements about the requirements of IAS37 Provisions, Contingent Liabilities and Contingent Assets are correct?
   1. Contingent assets and liabilities should not be recognised in the financial statements.  
   2. A contingent asset should only be disclosed in the notes to a financial statement where an inflow of economic benefits is probable.  
   3. A contingent liability may be ignored if the possibility of the transfer of economic benefits is remote.
      A. All the three statements are correct  
      B. 1 and 2 only  
      C. 1 and 3 only  
      D. 2 and 3 only
49. In relations to the Statement of Cash Flows, which, if any, of the following are correct?

1. The direct method of calculating net cash flow from operating activities leads to a different figure from that produced by the indirect method, but this balanced elsewhere in the statement of cash flows
2. A company making high profits must necessarily have net cash inflow from operating activities.
3. Profits and losses on disposals of non-current assets appear as items under cash flows from investing activities in the statement of cash flow.

A. 1 only
B. 2 and 3 only
C. none of the above
D. All of the above

50. Which of the following statements about the valuation of inventory is correct according to IAS2 Inventories?

A. Inventory items are normally to be valued at the higher of cost and net realisable value
B. The cost of goods manufactured by an enterprise will include materials and labour only. Overhead costs cannot be included
C. LIFO is an accepted valuation method for inventory. FIFO is not an accepted valuation method for inventory.
D. Selling prices less estimated profit margin may be used to arrive at cost if this gives a reasonable approximation to actual cost