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# ACCA

## Paper F3/FFA

### Financial Accounting

### June 2015

### Revision Mock

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### Notice to Markers

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

- 2 For each question, please provide suitable constructive comments

| Question Number | General Comments | Exam Technique Comments |
|-----------------|------------------|-------------------------|
|                 |                  |                         |

**ACCA REVISION MOCK**

# **Financial Accounting**

**June 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

- 1 The following is an extract from the equity section of the statement of financial position of Ink Co as at 31 December 20X5.

|                            |         |
|----------------------------|---------|
|                            | \$      |
| Share capital (\$1 shares) | 100,000 |
| Share premium              | 50,000  |

During the year ended 31 December 20X1, Ink issued 100,000 \$1 ordinary shares for \$4 each.

**What was the balance on the share premium account as at 31 December 20X1?**

- A \$50,000  
 B \$350,000  
 C \$450,000  
 D \$150,000 (2 marks)

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

- A The discounts received balance was listed as a debit 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 (2 marks)

- 3 A business paid insurance premiums of \$12,500 during the year ended 30 June 20X3. At 30 June 20X2 there was an insurance prepayment of \$600 and at 30 June 20X3 there was a prepayment of \$800.

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

- A \$12,500  
 B \$12,300  
 C \$11,700  
 D \$12,700 (2 marks)

- 4 At 30 September 20X3, a business wrote off two debts of \$750 and \$1,135 respectively. It also required an allowance for receivables of \$6,675. The allowance for receivables balance at 1 October 20X2 was \$7,650.

**What was the irrecoverable debt expense for the year ended 30 September 20X3?**

- A \$910  
 B \$1,885  
 C \$2,860  
 D \$975 (2 marks)

PAPER F3 AND FFA : FINANCIAL ACCOUNTING

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- 5 A sole trader purchased a machine for \$750 for long-term use. He incorrectly posted the following double-entry:

Dr Repairs expense       \$750

Cr Bank                       \$750

**What type of error is this?**

- A Extraction error
- B Error of omission
- C Error of commission
- D Error of principle

**(2 marks)**

- 6 **Which of the following statements in relation to bank reconciliations is true?**

- A Uncleared cheques are added to the balance on the bank statement.
- B Dishonoured cheques from customers are adjusted for by debiting the cash book.
- C Unrecorded direct debits are adjusted for by crediting the cash book.
- D Bank charges on the bank statement but not in the cash book are ignored in the reconciliation.

**(2 marks)**

- 7 Slouch Co bought a new building on 1 January 20X2 for \$400,000. It was decided to depreciate the building over fifty years on a straight line basis with nil estimated residual value. On 31 December 20X9, the building was revalued to \$850,000.

**What is the revaluation surplus that will be recorded in other comprehensive income for the year ended 31 December 20X9?**

- A \$336,000
- B \$450,000
- C \$514,000
- D \$786,000

**(2 marks)**

- 8 A business makes all of its sales on credit.

At 1 January 20X3, there were receivables brought forward from the previous year of \$65,000. During 20X3, cash of \$182,500 is received from customers, Irrecoverable debts of \$1,250 were written off, and discounts allowed totalled \$950. It was also agreed with a credit customer, who was also a supplier, that that an amount of \$750 would be offset against the balances due from each other. Receivables at 31 December 20X3 were \$68,500.

**What was the value of sales made during 20X3?**

- A \$188,950
- B \$188,200
- C \$188,000
- D \$187,250

**(2 marks)**

9 Jake's bank statement shows an overdrawn balance of \$865. This does not agree to the cash book. The following reconciling differences are noted:

- (i) There are unpresented cheques of \$265.
- (ii) The bank debited \$325 from Jake's account instead of from June's account.
- (iii) Jake has made no accounting entries for bank charges of \$35.

**What is the balance on the cash book when errors and omissions have been corrected?**

- A \$805 debit
- B \$805 credit
- C \$770 credit
- D \$770 debit

**(2 marks)**

10 Which of the following statements is not true?

- A The extended trial balance is not a book of prime entry.
- B Only cash purchases are recorded in the purchases day book.
- C Contra entries agreed with credit customers who are also suppliers will affect the individual payables and receivables ledger account balances.
- D Settlement discount received will need to be included as part of a trade payables control account reconciliation.

**(2 marks)**

11 A sales-tax registered business made sales of \$2,500 (exclusive of sales tax) and buys goods for \$3,300 (inclusive of sales tax). Sales tax is 10%.

**What will be the net effect upon the sales tax ledger account balance when these transactions are accounted for?**

- A \$50 Dr
- B \$50 Cr
- C \$80 Cr
- D \$80 Dr

**(2 marks)**

12 At 31 December 20X4, a business had an item of inventory which cost \$300 to manufacture. Due to water damage, the business will need to spend \$75 to repair the item. Following its repair, the item could be sold for \$280.

**At what value should this item of inventory be accounted for in the financial statements at 31 December 20X4?**

- A \$300
- B \$280
- C \$225
- D \$205

**(2 marks)**

- 13 Which of the following statements is true?**
- A The accumulated depreciation balance is a debit balance.
  - B The depreciation expense account balance is a credit balance.
  - C The revaluation surplus account balance is always credit balance.
  - D The revaluation surplus account balance always a debit balance. **(2 marks)**
- 14 Anchor Co is being sued for compensation by one of its employees as a result of suffering an injury whilst at work. Legal advisers believe that there is a 30% chance that Anchor Co will lose the claim and will have to pay damages of \$250,000.**
- Which of the following is the correct accounting treatment to report this situation?**
- 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 \$250,000
  - D A provision is required for \$75,000 **(2 marks)**
- 15 A sole trader has not yet accounted for a discount received of \$150. After the correct accounting entries have been recorded, which of the following statements is true?**
- A Gross profit and net profit will increase by \$150
  - B Gross profit and net profit will decrease by \$150
  - C Gross profit will be unaffected but net profit will increase by \$150
  - D Gross profit will be unaffected but net profit will decrease by \$150 **(2 marks)**
- 16 A business buys an item of property, plant and equipment for use in the business. Which of the following is not capitalised as part of the cost of the asset?**
- A Electrical and fitting work to install the equipment of \$5,000.
  - B Delivery fees of \$750.
  - C \$1,000 spent on a four-year warranty to ensure that repairs can be carried out quickly and at no extra cost.
  - D \$2,500 incurred testing the machine. **(2 marks)**
- 17 A trial balance is made up of a list of debit balances and credit balances. Which of one of the following statements is incorrect?**
- A A balanced trial balance does not prove that there are no accounting errors within the accounting records.
  - B Assets are represented by debit balances.
  - C Expenses are represented by credit balances.
  - D Liabilities are represented by credit balances. **(2 marks)**





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21 A Co owns 60% of the equity shares of B Co and 40% of the shares of C Co.

**What is the relationship between A Co with B Co and C Co?**

- A B Co is an associate and C Co is a subsidiary of A Co
- B B Co and C Co are both associates of A Co
- C B Co and C Co are both subsidiaries of A Co
- D B Co is a subsidiary, and C Co is an associate, of A Co (2 marks)

22 **The receivables collection period at Pop has increased from 35 days to 46 days. Which of the following is not a valid explanation for this increase?**

- A Credit terms offered to customers have been extended
- B There are several irrecoverable debts that have yet to be written off
- C Pop has reduced the number of employees working in credit control
- D Pop increased the prompt payment discount that they offer (2 marks)

23 A business buys a car on 1 January 20X0 for \$5,000. It depreciates cars straight line at a rate of 25% per year.

The business sells the car on 31 December 20X2 for \$500.

**What is the profit or (loss) on disposal that will be recorded in the statement of profit or loss?**

- A (\$4,500)
- B (\$750)
- C (\$2,500)
- D \$500 (2 marks)

24 During the year ended 31 March 20X4, Plank Co paid its prior year tax bill of \$125,700. Plank Co had provided \$130,000 in its prior-year financial statements in respect of this tax.

Plank Co estimates that its tax bill for the profits earned in the year ended 31 March 20X4 is \$145,000.

**What is the tax expense in Plank Co's statement of profit or loss for the year ended 31 March 20X4?**

- A \$140,700
- B \$149,300
- C \$125,700
- D \$130,000 (2 marks)

- 25** Raul uses the first in first out method of inventory valuation. At 1 August 20X5 he had 48 units in inventory at a total value of \$540. The following inventory purchases were made in August 20X5:

*Date*

12 Aug                    50 units purchased for \$11.50 each  
23 Aug                    80 units purchased for \$11.40 each

On 25 Aug, Raul sold 90 units.

**What is the value of Raul's inventory at 31 August 20X5??**

- A     \$990.00  
B     \$1,012.00  
C     \$1,003.20  
D     \$1,004.00

**(2 marks)**

- 26** Forth 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 to purchase was sold for \$2,000 on 5 January 20X2.  
C     A fire destroyed Forth Co's warehouse on 6 January 20X2.  
D     On 10 January 20X2, a regulator announced that Forth Co must pay \$10,000 in fines as a result of health and safety regulation breaches that occurred during the year ended 31 December 20X1.

**(2 marks)**

- 27** A business sublets surplus office space. In the year ended 30 June 20X5 cash received from tenants was \$83,700.

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 | 3,800             | 2,400             |
| 30 June 20X5 | 4,700             | 3,000             |

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

- A     \$84,000  
B     \$83,400  
C     \$80,600  
D     \$86,800

**(2 marks)**

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- 28** On 1 January 20X1, Jinx Co begins the development of a new computer game console. Development costs are \$1m per month.

On 1 October 20X1, Jinx Co firmly believes that it has sufficient knowledge and resources to finish the product. Market research demonstrates that there will be a high demand for this new console.

**How much can be capitalised in the year ended 31 December 20X1 in respect of development activities?**

- A \$Nil
  - B \$12m
  - C \$3m
  - D \$2m
- (2 marks)**

- 29** Per the IASB Framework, an asset can be defined as:

- A An obligation of the entity that arose from a past event
  - B An obligation of the entity that will arise from a future event
  - C A resource controlled by an entity that arose from a past event
  - D A resource controlled by an entity that will arise from a future event
- (2 marks)**

- 30** Hatch Co is preparing its statement of cash flows for the year ended 30 April 20X4. During the year, it disposed of a vehicle with a carrying amount of \$5,000 at the date of disposal for proceeds cash proceeds of \$3,000. The vehicle had been purchased at a cost of \$9,000.

**What amounts should be disclosed within the 'Investing Activities' classification of the statement of cash flows in respect of the vehicle disposal?**

- A A loss on disposal of \$2,000 and a cash inflow of sale proceeds of \$3,000
  - B A cash inflow of sale proceeds of \$3,000 only
  - C A loss on disposal of \$2,000 only
  - D No items are relevant for classification as 'Investing Activities'
- (2 marks)**

- 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
- (2 marks)**

- 32 When completing his final accounts, James found that he had overstated a year end accrual.

**How are James' net profit and capital affected by the correction of the error?**

|   | <i>Net profit</i> | <i>Net assets</i> |                  |
|---|-------------------|-------------------|------------------|
| A | Increased         | Increased         |                  |
| B | Increased         | Decreased         |                  |
| C | Decreased         | Increased         |                  |
| D | Decreased         | Decreased         | <b>(2 marks)</b> |

- 33 In the prior financial year, Peekaboo 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 the movement in the gross profit margin?**

- 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. **(2 marks)**

- 34 Beeb Co has a draft profit after tax for the year of \$100,000. Beeb Co has share capital of \$50,000 consisting of 50c ordinary shares. A dividend was paid during the year of 30c per share.

**What will be the profit after tax after accounting for this transaction?**

- A \$100,000
- B \$70,000
- C \$75,000
- D \$85,000 **(2 marks)**

- 35 **Which one of the following statements is not true in relation to accounting for subsidiaries and associates in group accounts?**

- A Goodwill is not calculated when an investment in an associate is made.
- B Goodwill is not calculated when an investment in a subsidiary is made.
- C Non-controlling interests are not accounted for when accounting for an investment in an associate.
- D Non-controlling interests are accounted for when accounting for an investment in a subsidiary. **(2 marks)**

## SECTION B

### BOTH QUESTIONS ARE COMPULSORY AND MUST BE ANSWERED

- 1 On 1 January 20X1, Poodle acquired 80% of the ordinary shares of Setter for \$270,000. The statements of financial position for the two entities as at 30 June 20X4 were as follows:

|                                     | <i>Poodle</i><br>\$ | <i>Setter</i><br>\$ |
|-------------------------------------|---------------------|---------------------|
| <b>Assets</b>                       |                     |                     |
| <b>Non-current assets</b>           |                     |                     |
| Property, plant and equipment       | 450,000             | 321,815             |
| Investments                         | 300,000             | –                   |
| <b>Current assets</b>               |                     |                     |
| Inventories                         | 75,000              | 45,500              |
| Trade and other receivables         | 32,000              | 43,175              |
| Cash and cash equivalents           | 3,000               |                     |
|                                     | <hr/>               | <hr/>               |
| <b>Total Assets</b>                 | <b>860,000</b>      | <b>410,500</b>      |
| <b>Equity and liabilities</b>       |                     |                     |
| <b>Equity</b>                       |                     |                     |
| Issued share capital                | 100,000             | 50,000              |
| Share premium                       | 20,000              | 10,000              |
| Retained earnings                   | 490,000             | 250,500             |
| <b>Non-current liabilities</b>      |                     |                     |
| Loans                               | 150,000             | 17,500              |
| <b>Current liabilities</b>          |                     |                     |
| Trade and other payables            | 100,000             | 71,425              |
| Bank overdraft                      |                     | 11,075              |
|                                     | <hr/>               | <hr/>               |
| <b>Total equity and liabilities</b> | <b>860,000</b>      | <b>410,500</b>      |

The following information is relevant to the preparation of the consolidated financial statements for the year ended 30 June 20X4:

- On 1 January 20X1, the retained earnings of Setter were \$157,500 and the fair value of the non-controlling interest was \$63,500.
- At the acquisition date, the fair value of land owned by Setter exceeded its carrying amount by \$100,000. This land was still owned by Setter at 30 June 20X4.
- During the year ended 30 June 20X4, Poodle sold goods to Setter for \$20,000 at a mark-up on cost of 25%. All of the goods remain in the inventory of Setter at the year end. The sale was made on credit and payment had not been made by Setter at 30 June 20X4.

**Required:**

**Prepare the consolidated statement of financial position of the Poodle group as at 30 June 20X4.**

**(Total: 15 marks)**

2 The trial balance for Buzzard Co as at 30 September 20X6 is presented below:

|  | <i>Dr</i> | <i>Cr</i> |
|--|-----------|-----------|
|  | \$        | \$        |
| Revenue  |           | 360,250   |
| Retained earnings  |           | 64,000    |
| Purchases  | 145,380   |           |
| Administrative expenses  | 67,300    |           |
| Distribution costs   | 42,815    |           |
| Plant and machinery – cost                                       | 199,850   |           |
| Plant and machinery – accumulated depreciation at 1 October 20X5 |           | 48,000    |
| Trade receivables  | 47,450    |           |
| Allowance for receivables – 1 October 20X5                       |           | 2,500     |
| Inventory – 1 October 20X5                                       | 20,000    |           |
| Dividend paid  | 3,000     |           |
| Trade payables   |           | 27,795    |
| Issued share capital @ \$1 shares                                |           | 20,000    |
| Income tax   |           | 1,000     |
| Bank overdraft   |           | 2,250     |
|  | 525,795   | 525,795   |

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

- Inventory at 30 September 20X6 had a cost of \$23,500. Within this, there were several items which had cost \$5,000 but which could be sold for only \$3,500.
- The allowance for receivables should be increased to \$6,000. The increase should be charged as an administrative cost.
- Plant and machinery is depreciated on a reducing balance basis at a rate of 20% per annum. Depreciation should be charged to cost of sales.
- The income tax charge based upon the profit for the year was estimated at \$15,000.

**Required:**

**Prepare the statement of profit or loss for the year ended 30 September 20X6 together with a statement of financial position of Buzzard Co as at 30 September 20X6.**

**(Total: 15 marks)**