1.1 Who issues International Financial Reporting Standards?

The International Accounting Standards Board

1.2 Which groups of people are most likely to be interested in the financial statements of a sole trader?

The business's bank manager, The tax authorities

1.5 Which of the following best describes corporate governance?

Corporate governance is the system by which companies and other entities are directed and controlled.

1.10 Which of the following statements is/are true?

1 Directors of companies have a duty of care to show reasonable competence in their management of the affairs of a company.

2 Directors of companies must act honestly in what they consider to be the best interest of the company.

3 A Director's main aim should be to create wealth for the shareholders of the company.

1.11 Which of the following statements is/are true?

1 The IFRS advisory council is a forum for the IASB to consult with the outside world.

2 The IASB Foundation produces IFRSs. The IFRS Foundation is overseen by the IASB.

3 One of the objectives of the IFRS Foundation is to bring about convergence of national accounting standards and IFRSs

1.14 describes how International Financial Reporting Standards (IFRSs) should be used?

To provide examples of best financial reporting practice for national bodies who develop their own requirements

2.1 Which accounting concept should be considered if the owner of a business takes goods from inventory for their own personal use?

The business entity concept

2.2 Sales revenue should be recognised when goods and services have been supplied; costs are incurred when goods and services have been received. Which accounting concept governs the above?

The accruals concept

2.3 Which accounting concept states that omitting or misstating this information could influence users of the financial statements?

The materiality concept

3.11 Which of the following are books of prime entry?

1 Sales day book

2 Cash book

3 Journal

3.18 Which one of the following statements about an imprest system of petty cash is correct?

An imprest system for petty cash helps with management of small cash expenditures and reduces the risk of fraud.

3.19 Which one of the following provides evidence that an item of expenditure on petty cash has been approved or authorised?

Petty cash voucher

4.17 Which of the following statements does describe a way in which an effective accounting system facilitates the provision of useful accounting information?

A By requiring authorisation in line with organisational policies

B By processing and recording transactions in accordance with accounting rules

C By preventing transactions from being processed inaccurately

D By enabling transactions to be recorded as necessary to permit preparation of financial statements

4.18 Which of the following statements is/are correct?

1 Cash purchases are recorded in the cash book.

2 The sales day books is used to sent to customer

• Carriage inwards is included in the cost of purchases. Carriage outwards is a selling expense.

• Capital expenditure is expenditure which forms part of the cost of non-current assets. Revenue expenditure is expenditure incurred for the purpose of the trade or to maintain non current assets.

• Development costs must be capitalised as an intangible asset if the criteria in IAS 38 are satisfied

• According to IAS 37, a provision should be recognised when:

– An entity has a present obligation

– It is probable that a transfer of economic benefits will be required to settle it

– A reliable estimate can be made of its amount

• According to IAS 37, a contingent liability must not be recognised as a liability in the financial statements. Instead it should be disclosed in the notes to the financial statements.

6.7 In preparing its financial statements for the current year, a company's closing inventory was understated by $300,000. What will be the effect of this error if it remains uncorrected?

The current year's profit will be understated and next year's profit will be overstated.

cls↑ cos↓ profit↓

6.9 Which of the following statements about IAS 2 Inventories is correct?

Production overheads should be included in cost on the basis of a company's normal level of activity in the period.

In determining the cost of inventories, trade discounts received must be deducted and selling costs must can added.

In arriving at the cost of inventories, FIFO and weighted average cost formulas are acceptable.

6.17 Which one of the following statements about the use of a continuous inventory system is correct?

A In a retail organisation, a continuous inventory system can be used to keep track of the quantity of each stock item available in its distribution centres.

B Under continuous inventory, the cost of each receipt of inventory and the cost of each issue from inventory is recorded individually.

C A continuous inventory system removes the need for physical inventory counts.

D Both the FIFO and average cost (AVCO) methods of pricing inventory may be used within a continuous inventory system.

7.18 Which of the following should be disclosed for tangible non-current assets according to IAS 16 Property, Plant and Equipment?

1 Depreciation methods used and the total depreciation allocated for the period

2 A reconciliation of the carrying amount of non-current assets at the beginning and end of the period

3 For revalued assets, whether an independent valuer was involved in the valuation

4 For revalued assets, the effective date of the revaluation

9.1

Research expenditure, other than capital expenditure on research facilities, should be recognised as an expense as incurred.

In deciding whether development expenditure qualifies to be recognised as an asset, it is necessary to consider whether there will be adequate finance available to complete the project.

9.2 According to IAS 38 Intangible Assets, which of the following statements about research and development expenditure are correct?

1 If certain conditions are met, an entity must decide to capitalise development expenditure.

2 Research expenditure, other than capital expenditure on research facilities, must be written off as incurred.

4 Capitalised development expenditure must be disclosed in the statement of financial position under intangible non-current assets.

9.8 Which of the following conditions would preclude any part of the development expenditure to which it relates from being capitalised?

2 The benefits flowing from the completed development are expected to be less than its cost

3 Funds are unlikely to be available to complete the development

11.9 A company has been notified that a customer has been declared bankrupt. The company had previously made an allowance for this debt. Which of the following is the correct double entry to account for this new information?

DEBIT / CREDIT

Allowance for receivables / Receivables

11.14 Which TWO of the following statements are correct?

A An aged receivables analysis shows how long invoices for each customer have been outstanding.

C Receivables are included in the statement of financial position net of the receivables allowance.

11.16 Which one of the following statements is a benefit of offering credit facilities to customers? A Improved convenience for the customer

B The separation of product and service delivery from payment

C Provides time for appropriate payment approval procedures

12.1

A company should disclose details of the change in carrying amount of a provision from the beginning to the end of the year.

Contingent liabilities must be treated as actual liabilities and provided for if it is probable that they will arise.

12.2 Which of the following statements about contingent assets and contingent liabilities are correct? 1 A contingent asset should be disclosed by note if an inflow of economic benefits is probable.

4 No disclosure is required for either a contingent liability or a contingent asset if the likelihood of a payment or receipt is remote.

12.4

Create a provision: The company gives warranties on its products. The company's statistics show that about 5% of sales give rise to a warranty claim.

Disclose by note only: The company has guaranteed the overdraft of another company. The likelihood of a liability arising under the guarantee is assessed as possible.

12.5 Which of the following statements about the requirements of IAS 37 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 a transfer of economic benefits arising is remote.

3 Contingent assets must not be recognised in financial statements unless an inflow of economic benefits is virtually certain to arise.

12.8 Which of the following best describes a provision according to IAS 37 Provisions, Contingent Liabilities and Contingent Assets?

A provision is a liability of uncertain timing or amount.

13.6

Dividends paid on ordinary shares are included in the statement of changes in equity, not the statement of profit or loss and other comprehensive income.

Dividends paid on redeemable preference shares are treated like interest on loans and are shown in the statement of profit or loss and other comprehensive income as a finance charge.

The statement of profit or loss and other comprehensive income shows the gain on revaluation of non-current assets for the period.

Differences between the cash book and the bank statement arise for three reasons:

– Errors: usually in the cash book

– Omissions: such as bank charges not posted in the cash book

– Timing differences: such as unpresented cheques

Cash (or settlement) discounts received are included as other income of the period in the statement of profit or loss.

Trade discounts received are deducted from the cost of purchases

Trade discounts allowed are deducted from the gross sales price, and this amount is invoiced to the customer.

17.5 Which one of the following is an error of principle?

B Plant and machinery purchased was debited to the purchases account.

B An error where one side of a transaction has been recorded in the wrong account, and that account is of a different class to the correct account

17.6 What is an error of commission?

C An error where one side of a transaction has been recorded in the wrong account, and that account is of the same class as the correct account

17.7 Where a transaction is entered into the correct ledger accounts, but the wrong amount is used, what is the error known as?

B An error of original entry

17.13 Two types of common errors in bookkeeping are errors of principle and errors of transposition. Which of the following correctly states whether or not these errors will be revealed by extracting a trial balance?

Errors of principle / Errors of transposition

Will not be revealed / Will be revealed

18.4 A trial balance extracted from a sole trader's records failed to agree, and a suspense account was opened for the difference. Which of the following errors would require an entry in the suspense account in correcting them?

1 Sales returns were mistakenly debited to the purchases returns account.

2 Cash received from the sale of a non-current asset was correctly entered in the cash book but was debited to the disposal account.

3 The balance on the rent account was omitted from the trial balance.

4 Goods taken from inventory by the proprietor had been recorded by crediting drawings account and debiting purchases account.

20.6 A sole trader fixes her prices by adding 50 per cent to the cost of all goods purchased.

Sales 150%

Cos 100%

21.4 Which of the following items are required to be disclosed by a limited liability company, either on the face of their main financial statements or in the notes, according to International Financial Reporting Standards?

1 Share capital 2 Dividends proposed 3 Depreciation and amortisation

21.5

In preparing a statement of cash flows, either the direct or the indirect method may be used. Both lead to the same figure for net cash from operating activities.

Loan notes can be classified as current or non-current liabilities.

Financial statements must disclose a company's total expense for depreciation, if material.

21.9 Which of the following statements about limited liability companies' accounting is/are correct? 1 A revaluation surplus arises when a non-current asset is revalued.

2 The authorised share capital of a company is the maximum nominal value of share.

3 IAS 10 Events After the Reporting Period requires all non-adjusting events to be disclosed in the notes to the financial statements.

22.2 For which class or classes of assets should a company disclose in the notes to the financial statements a reconciliation of the opening carrying amount to the closing carrying amount, showing the movements in the period?

2 Intangible assets 3 Tangible non-current assets

22.3 Which of the following should be disclosed in the note to the financial statements for inventories?

2 The amount of inventories carried at net realisable value

3 The accounting policies adopted in measuring inventories

IAS 2 requires disclosure of the accounting policies adopted in measuring inventories, including the cost formula used, the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity and the carrying amount of inventories carried at net realisable value.

22.4 Which of the following should be disclosed in the note to the financial statements for intangible assets?

1 The method of amortisation used

2 A reconciliation of the carrying amount at the beginning and end of the period

3 The useful life of the assets

IAS 38 does not require the net realisable value of deferred development costs to be disclosed.

22.5 Which of the following statements is/are correct?

1 IAS 37 requires disclosure in the notes to the financial statements of the uncertainties affecting the outcome of a provision

2 IAS 10 requires disclosure of the nature and financial effect of a non-adjusting event after the reporting period in the notes to the financial statements

22.6 A certain IFRS requires that the following disclosure is made in a note to the financial statements:

(i) A brief description of its nature

(ii) Where practicable an estimate of the financial effect

(iii) An indication of the uncertainties relating to the amount or timing of any outflow

(iv) The possibility of any reimbursement

22.7 Which of the following should be disclosed in the note to the financial statements for tangible non current assets?

2 A reconciliation of the carrying amount of non-current assets at the beginning and end of the period

3 For revalued assets, the methods and significant assumptions applied in estimating the fair value 4 For revalued assets, the carrying amount of each class of assets that would have been included in the financial statements had the assets been carried at cost less depreciation

IAS 16 does not require disclosure of the market value of all tangible non-current assets

22.8 Which of the following are required as disclosures by IAS 2 Inventories?

1 The amount of write-downs of inventories in the period that have been recognised as an expense 2 Inventories must be valued at the lower of cost and net realisable value.

3 The carrying amount of inventories classified by type (for example, raw materials, work in progress)

and the cost of inventories recognised as an expense in the period.

22.9 Which one of the following is a disclosure about non-adjusting events required by IAS 10 Events After the Reporting Period?

An estimate of the financial effect of the event, unless a reasonable estimate cannot be made

23.3 In finalising the financial statements of a company for the year ended 30 June 20X4, which of the following material matters should be adjusted for?

1 A customer who owed $180,000 at the end of the reporting period went bankrupt in July 20X4. 2 The sale in August 20X4 for $400,000 of some inventory items valued in the statement of financial position at $500,000.

These affect valuation of receivables and inventory at the end of the reporting period.