

7.1 What is the purpose of charging depreciation in accounts?

- A To allocate the cost of a non-current asset over the accounting periods expected to benefit from its use
- B To ensure that funds are available for the eventual replacement of the asset
- C To reduce the cost of the asset in the statement of financial position to its estimated market value
- D To account for the 'wearing-out' of the asset over its life

(2 marks)

7.2 Your firm bought a machine for \$5,000 on 1 January 20X1, which had an expected useful life of four years and an expected residual value of \$1,000; the asset was to be depreciated on the straight-line basis. The firm's policy is to charge depreciation in the year of disposal. On 31 December 20X3, the machine was sold for \$1,600.

What amount should be entered in the 20X3 statement of profit or loss and other comprehensive income for profit or loss on disposal?

- A Profit of \$600
- B Loss of \$600
- C Profit of \$350
- D Loss of \$400

(2 marks)

7.3 An asset register showed a carrying value of \$67,460. A non-current asset costing \$15,000 had been sold for \$4,000, making a loss on disposal of \$1,250. No entries had been made in the asset register for this disposal.

What is the correct balance on the asset register?

- A \$42,710
- B \$51,210
- C \$53,710
- D \$62,210

(2 marks)

7.4 An organisation's asset register shows a carrying value of \$145,600. The non-current asset account in the nominal ledger shows a carrying value of \$135,600. The difference could be due to a disposed asset not having been deducted from the asset register. Which one of the following could represent that asset?

- A Asset with disposal proceeds of \$15,000 and a profit on disposal of \$5,000
- B Asset with disposal proceeds of \$15,000 and a carrying value of \$5,000
- C Asset with disposal proceeds of \$15,000 and a loss on disposal of \$5,000
- D Asset with disposal proceeds of \$5,000 and a carrying value of \$5,000

(2 marks)

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- 7.5 Which one of the following would occur if the purchase of computer stationary was debited to the computer equipment at cost account?
- A An overstatement of profit and an overstatement of non-current assets
B An understatement of profit and an overstatement of non-current assets
C An overstatement of profit and an understatement of non-current assets
D An understatement of profit and an understatement of non-current assets (2 marks)
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- 7.6 A company's plant and machinery ledger account for the year ended 30 September 20X2 was as follows:

PLANT AND MACHINERY – COST					
20X1		\$	20X2		\$
1 Oct	Balance	381,200	1 Jun	Disposal account – cost of asset sold	36,000
1 Dec	Cash – addition	18,000	30 Sep	Balance	363,200
		<u>399,200</u>			<u>399,200</u>

The company's policy is to charge depreciation at 20% per year on the straight line basis, with proportionate depreciation in years of purchase and disposal.

What is the depreciation charge for the year ended 30 September 20X2?

- A \$74,440
B \$84,040
C \$72,640
D \$76,840 (2 marks)
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- 7.7 A company bought a property four years ago on 1 January for \$ 170,000. Since then property prices have risen substantially and the property has been revalued at \$210,000.

The property was estimated as having a useful life of 20 years when it was purchased. What is the balance on the revaluation surplus reported in the statement of financial position?

- A \$210,000
B \$136,000
C \$74,000
D \$34,000 (2 marks)
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- 7.8 A business purchased a motor car on 1 July 20X3 for \$20,000. It is to be depreciated at 20 per cent per year on the straight line basis, assuming a residual value at the end of five years of \$4,000, with a proportionate depreciation charge in the years of purchase and disposal.

The \$20,000 cost was correctly entered in the cash book but posted to the debit of the motor vehicles repairs account.

How will the business profit for the year ended 31 December 20X3 be affected by the error?

- A Understated by \$18,400
B Understated by \$16,800
C Overstated by \$18,400
D Overstated by \$16,800 (2 marks)

- 7.9 A company's policy is to charge depreciation on plant and machinery at 20% per year on cost, with proportional depreciation for items purchased or sold during a year.

The company's plant and machinery at cost account for the year ended 30 September 20X3 is shown below.

PLANT AND MACHINERY – COST					
		\$			\$
20X2			20X3		
1 Oct	Balance	200,000	30 Jun	Transfer disposal account	40,000
			30 Sep	Balance	210,000
20X3					
1 Apr	Cash-purchase of plant	50,000			
		<u>250,000</u>			<u>250,000</u>

What should be the depreciation charge for plant and machinery (excluding any profit or loss on the disposal) for the year ended 30 September 20X3?

- A \$43,000
B \$51,000
C \$42,000
D \$45,000

(2 marks)

- 7.10 The plant and machinery at cost account of a business for the year ended 30 June 20X4 was as follows:

PLANT AND MACHINERY – COST					
		\$			\$
20X3			20X3		
1 Jul	Balance	240,000	30 Sep	Transfer disposal account	60,000
20X4			20X4		
1 Jan	Cash – purchase of plant	160,000	30 Jun	Balance	340,000
		<u>400,000</u>			<u>400,000</u>

The company's policy is to charge depreciation at 20% per year on the straight line basis, with proportionate depreciation in the years of purchase and disposal.

What should be the depreciation charge for the year ended 30 June 20X4?

- A \$68,000
B \$64,000
C \$61,000
D \$55,000

(2 marks)

- 7.11 A manufacturing company receives an invoice on 29 February 20X2 for work done on one of its machines. \$25,500 of the cost is actually for a machine upgrade, which will improve efficiency. The accounts department do not notice and charge the whole amount to maintenance costs. Machinery is depreciated at 25% per annum on a straight-line basis, with a proportional charge in the years of acquisition and disposal. By what amount will the profit for the year to 30 June 20X2 be understated?

- A \$19,125
B \$25,500
C \$23,375
D \$21,250

(2 marks)

- 7.12 W bought a new printing machine. The cost of the machine was \$80,000. The installation costs were \$5,000 and the employees received training on how to use the machine, at a cost of \$2,000. Before using the machine to print customers' orders, a test was undertaken and the paper and ink cost \$1,000.

What should be the cost of the machine in the company's statement of financial position?

- A \$80,000
- B \$85,000
- C \$86,000
- D \$88,000

(2 marks)

- 7.13 What are the correct ledger entries to record an acquisition of a non-current asset on credit?

	<i>Debit</i>	<i>Credit</i>
A	Non-current assets – cost	Receivables
B	Payables	Non-current assets – cost
C	Non-current assets – cost	Payables
D	Non-current assets – cost	Revaluation surplus

(2 marks)

- 7.14 Alpha sells machine B for \$50,000 cash on 30 April 20X4. Machine B cost \$100,000 when it was purchased and has a carrying value of \$65,000 at the date of disposal. What are the journal entries to record the disposal of machine B?

A	Dr Accumulated depreciation	\$35,000	
	Dr Loss on disposal (SPL)	\$15,000	
	Dr Cash	\$50,000	
	Cr Non-current assets – cost		\$100,000
B	Dr Accumulated depreciation	\$65,000	
	Dr Loss on disposal (SPL)	\$35,000	
	Cr Non-current assets – cost		\$100,000
C	Dr Accumulated depreciation	\$35,000	
	Dr Cash	\$50,000	
	Cr Non-current assets		\$65,000
	Cr Profit on disposal (SPL)		\$20,000
D	Dr Non-current assets	\$65,000	
	Dr Accumulated depreciation	\$35,000	
	Cr Cash		\$50,000
	Cr Profit on disposal (SPL)		\$50,000

(2 marks)

- 7.15 Which of the following statements are correct?

- 1 IAS 16 *Property, plant and equipment* requires entities to disclose the purchase date of each asset.
 - 2 The carrying amount of a non-current asset is the cost or valuation of that asset less accumulated depreciation.
 - 3 IAS 16 *Property, plant and equipment* permits entities to make a transfer from the revaluation surplus to retained earnings for excess depreciation on revalued assets.
 - 4 Once decided, the useful life of a non-current asset should not be changed.
- A 1, 2 and 3
 - B 2 and 3 only
 - C 2 and 4 only
 - D 1, 2 and 4 only

(2 marks)

The following information is relevant for questions 7.16 and 7.17.

Gusna Co purchased a building on 31 December 20X1 for \$750,000. At the date of acquisition, the useful life of the building was estimated to be 25 years and depreciation is calculated using the straight-line method. At 31 December 20X6, an independent valuer valued the building at \$1,000,000 and the revaluation was recognised in the financial statements. Gusna's accounting policies state that excess depreciation arising on revaluation of non-current assets can be transferred from the revaluation surplus to retained earnings.

7.16 What is the depreciation charge on the building for the year ended 31 December 20X7?

- A \$40,000
- B \$50,000
- C \$30,000
- D \$42,500

(2 marks)

7.17 What is the journal entry to record the transfer of excess depreciation from the revaluation surplus to retained earnings?

- | | | | |
|---|------------------------|----------|----------|
| A | Dr Revaluation surplus | \$20,000 | |
| | Cr Retained earnings | | \$20,000 |
| B | Dr Revaluation surplus | \$12,500 | |
| | Cr Retained earnings | | \$12,500 |
| C | Dr Retained earnings | \$20,000 | |
| | Cr Revaluation surplus | | \$20,000 |
| D | Dr Revaluation surplus | \$12,500 | |
| | Cr Retained earnings | | \$12,500 |

(2 marks)

(Total = 34 marks)

- 9.1 According to IAS 38 *Intangible assets*, 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 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.
 - 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
- (2 marks)
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- 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 may decide to capitalise development expenditure.
 - 2 Research expenditure, other than capital expenditure on research facilities, must be written off as incurred.
 - 3 Capitalised development expenditure must be amortised over a period not exceeding 5 years.
 - 4 Capitalised development expenditure must be disclosed in the statement of financial position under intangible non-current assets.
- A 1, 2 and 4 only
B 1 and 3 only
C 2 and 4 only
D 3 and 4 only
- (2 marks)
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- 9.3 According to IAS 38 *Intangible assets*, which of the following statements concerning the accounting treatment of research and development expenditure are **true**?
- 1 Development costs recognised as an asset must be amortised over a period not exceeding five years.
 - 2 Research expenditure, other than capital expenditure on research facilities, should be recognised as an expense as incurred.
 - 3 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.
 - 4 Development projects must be reviewed at each reporting date, and expenditure on any project no longer qualifying for capitalisation must be amortised through the statement of profit or loss and other comprehensive income over a period not exceeding five years.
- A 1 and 4
B 2 and 4
C 2 and 3
D 1 and 3
- (2 marks)
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9.4 According to IAS 38 *Intangible assets*, which of the following statements is/are correct?

- 1 Capitalised development expenditure must be amortised over a period not exceeding five years.
 - 2 If all the conditions specified in IAS 38 are met, development expenditure may be capitalised if the directors decide to do so.
 - 3 Capitalised development costs are shown in the statement of financial position under the heading of non-current assets.
 - 4 Amortisation of capitalised development expenditure will appear as an item in a company's statement of changes in equity.
- A 3 only
B 2 and 3
C 1 and 4
D 1 and 3

(2 marks)

9.5 According to IAS 38 *Intangible assets*, which of the following are intangible non-current assets in the accounts of Iota Co?

- 1 A patent for a new glue purchased for \$20,000 by Iota Co
 - 2 Development costs capitalised in accordance with IAS 38
 - 3 A licence to broadcast a television series, purchased by Iota Co for \$150,000
 - 4 A state of the art factory purchased by Iota Co for \$1.5million
- A 1 and 3 only
B 1, 2 and 3 only
C 2 and 4 only
D 2, 3 and 4 only

(2 marks)

9.6 According to IAS 38 *Intangible assets*, which of the following statements about intangible assets are correct?

- 1 If certain criteria are met, research expenditure must be recognised as an intangible asset.
 - 2 If certain criteria are met, development expenditure must be capitalised
 - 3 Intangible assets must be amortised if they have a definite useful life
- A 2 and 3 only
B 1 and 3 only
C 1 and 2 only
D All three statements are correct

(2 marks)

9.7 According to IAS 38 *Intangible assets*, which of the following statements concerning the accounting treatment of research and development expenditure are true?

- 1 If certain criteria are met, research expenditure may be recognised as an asset.
 - 2 Research expenditure, other than capital expenditure on research facilities, should be recognised as an expense as incurred.
 - 3 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.
 - 4 Development expenditure recognised as an asset must be amortised over a period not exceeding five years.
 - 5 The financial statements should disclose the total amount of research and development expenditure recognised as an expense during the period.
- A 1, 4 and 5
B 2, 4 and 5
C 2, 3 and 4
D 2, 3 and 5

(2 marks)

- 10.1 A company receives rent for subletting part of its office block.

Rent, receivable quarterly in advance, is received as follows:

<i>Date of receipt</i>	<i>Period covered</i>	<i>\$</i>
1 October 20X1	3 months to 31 December 20X1	7,500
30 December 20X1	3 months to 31 March 20X2	7,500
4 April 20X2	3 months to 30 June 20X2	9,000
1 July 20X2	3 months to 30 September 20X2	9,000
1 October 20X2	3 months to 31 December 20X2	9,000

What figures, based on these receipts, should appear in the company's financial statements for the year ended 30 November 20X2?

	<i>Statement of profit or loss</i>	<i>Statement of financial position</i>
A	\$34,000 Debit	Rent in arrears (Dr) \$3,000
B	\$34,500 Credit	Rent received in advance (Cr) \$6,000
C	\$34,000 Credit	Rent received in advance (Cr) \$3,000
D	\$34,000 Credit	Rent in arrears (Dr) \$3,000

(2 marks)

- 10.2 A company pays rent quarterly in arrears on 1 January, 1 April, 1 July and 1 October each year. The rent was increased from \$90,000 per year to \$120,000 per year as from 1 October 20X2.

What rent expense and accrual should be included in the company's financial statements for the year ended 31 January 20X3?

	<i>Rent expense</i> <i>\$</i>	<i>Accrual</i> <i>\$</i>
A	100,000	20,000
B	100,000	10,000
C	97,500	10,000
D	97,500	20,000

(2 marks)

- 10.3 At 31 March 20X2 a company had oil in hand to be used for heating costing \$8,200 and an unpaid heating oil bill for \$3,600.

At 31 March 20X3 the heating oil in hand was \$9,300 and there was an outstanding heating oil bill of \$3,200.

Payments made for heating oil during the year ended 31 March 20X3 totalled \$34,600.

Based on these figures, what amount should appear in the company's statement of profit or loss and other comprehensive income for heating oil for the year?

- A \$23,900
- B \$36,100
- C \$45,300
- D \$33,100

(2 marks)

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- 10.4 A company has sublet part of its offices and in the year ended 30 November 20X3 the rent receivable was:

Until 30 June 20X3	\$8,400 per year
From 1 July 20X3	\$12,000 per year

Rent was paid quarterly in advance on 1 January, April, July, and October each year.

What amounts should appear in the company's financial statements for the year ended 30 November 20X3?

	<i>Rent receivable</i>	<i>Statement of financial position</i>	
A	\$9,900	\$2,000 in sundry payables	
B	\$9,900	\$1,000 in sundry payables	
C	\$10,200	\$1,000 in sundry payables	
D	\$9,900	\$2,000 in sundry receivables	(2 marks)

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- 10.5 A business compiling its financial statements for the year to 31 July each year pays rent quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. The annual rent was increased from \$60,000 per year to \$72,000 per year as from 1 October 20X3.

What figure should appear for rent expense in the business's statement of profit or loss and other comprehensive income for the year ended 31 July 20X4?

- A \$69,000
- B \$62,000
- C \$70,000
- D \$63,000

(2 marks)

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- 10.6 Diesel fuel in inventory at 1 November 20X7 was \$12,500, and there were invoices awaited for \$1,700. During the year to 31 October 20X8, diesel fuel bills of \$85,400 were paid, and a delivery worth \$1,300 had yet to be invoiced. At 31 October 20X8, the inventory of diesel fuel was valued at \$9,800. What is the value of diesel fuel to be charged to the statement of profit or loss and other comprehensive income for the year to 31 October 20X8?

- A \$87,700
- B \$89,400
- C \$88,500
- D \$91,100

(2 marks)

10.7 The electricity account for the year ended 30 June 20X1 was as follows.

	\$
Opening balance for electricity accrued at 1 July 20X0	300
<i>Payments made during the year</i>	
1 August 20X0 for three months to 31 July 20X0	600
1 November 20X0 for three months to 31 October 20X0	720
1 February 20X1 for three months to 31 January 20X1	900
30 June 20X1 for three months to 30 April 20X1	840
1 August 20X1 for three months to 31 July 20X1	840

Which of the following is the appropriate entry for electricity?

	<i>Accrued at 30 June 20X1</i>	<i>Charge to SPL year ended 30 June 20X1</i>
A	\$Nil	\$3,060
B	\$460	\$3,320
C	\$560	\$3,320
D	\$560	\$3,420

(2 marks)

10.8 The year end of M Inc is 30 November 20X0. The company pays for its gas by a standing order of \$600 per month. On 1 December 20W9, the statement from the gas supplier showed that M Inc had overpaid by \$200. M Inc received gas bills for the four quarters commencing on 1 December 20W9 and ending on 30 November 20X0 for \$1,300, \$1,400, \$2,100 and \$2,000 respectively.

Which of the following is the correct charge for gas in M Inc's statement of profit or loss for the year ended 30 November 20X0?

- A \$6,800
- B \$7,000
- C \$7,200
- D \$7,400

(2 marks)

10.9 A business compiling its accounts for the year to 31 January each year pays rent quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. After remaining unchanged for some years, the rent was increased from \$24,000 per year to \$30,000 per year as from 1 July 20X0.

Which of the following figures is the rent expense which should appear in the statement of profit or loss for year ended 31 January 20X1?

- A \$27,500
- B \$29,500
- C \$28,000
- D \$29,000

(2 marks)

10.10 B, a limited liability company, receives rent for subletting part of its office premises to a number of tenants.

In the year ended 31 December 20X4 B received cash of \$318,600 from its tenants.

Details of rent in advance and in arrears at the beginning and end of 20X4 are as follows:

	31 December	
	20X4	20X3
	\$	\$
Rent received in advance	28,400	24,600
Rent owing by tenants	18,300	16,900

All rent owing was subsequently received

What figure for rental income should be included in the statement of profit or loss of B for 20X4?

- A \$341,000
- B \$336,400
- C \$300,800
- D \$316,200

(2 marks)

10.11 During 20X4, B, a limited liability company, paid a total of \$60,000 for rent, covering the period from 1 October 20X3 to 31 March 20X5.

What figures should appear in the company's financial statements for the year ended 31 December 20X4?

	<i>Statement of profit or loss and other comprehensive income</i>	<i>Statement of financial position</i>	
	\$	\$	
A	40,000	10,000	Prepayment
B	40,000	15,000	Prepayment
C	50,000	10,000	Accrual
D	50,000	15,000	Accrual

(2 marks)

10.12 What are the correct ledger entries to record an accrual in the accounts?

- A Dr Asset
Cr Expenses
- B Dr Expenses
Cr Liability
- C Dr Liability
Cr Expenses
- D Dr Expenses
Cr Asset

(2 marks)

The following information is relevant for questions 10.13 and 10.14.

- 10.13 The trainee accountant at Judd Co has forgotten to make an accrual for rent for December in the financial statements for the year ended 31 December 20X2. Rent is charged in arrears at the end of February, May, August and November each year. The bill payable in February is expected to be \$30,000. Judd Co's draft statement of profit or loss shows a profit of \$25,000 and draft statement of financial position shows net assets of \$275,000.

What is the profit or loss for the year and what is the net asset position after the accrual has been included in the financial statements?

	Profit for the year	Net asset position	
A	\$15,000	\$265,000	
B	\$15,000	\$285,000	
C	\$35,000	\$265,000	
D	\$35,000	\$285,000	(2 marks)

- 10.14 What are the correct ledger entries to record a prepayment in the accounts?

A	Dr Asset	
	Cr Expenses	
B	Dr Expenses	
	Cr Liability	
C	Dr Liability	
	Cr Expenses	
D	Dr Expenses	
	Cr Asset	(2 marks)

- 10.15 Buster's draft accounts for the year to 31 October 20X5 report a loss of \$1,486. When he prepared the accounts, Buster did not include an accrual of \$1,625 and a prepayment of \$834.

What is Buster's profit or loss for the year to 31 October 20X5 following the inclusion of the accrual and prepayment?

A	A loss of \$695	
B	A loss of \$2,277	
C	A loss of \$3,945	
D	A profit of \$1,807	(2 marks)

(Total = 30 marks)

- 11.1 At 31 December 20X2 a company's receivables totalled \$400,000 and an allowance for receivables of \$50,000 had been brought forward from the year ended 31 December 20X1.

It was decided to write off debts totalling \$38,000 and to adjust the allowance for receivables to 10% of the receivables.

What charge for receivables expense should appear in the company's statement of profit or loss for the year ended 31 December 20X2?

- A \$74,200
- B \$51,800
- C \$28,000
- D \$24,200

(2 marks)

- 11.2 At 1 July 20X2 the receivables allowance of Q was \$18,000.

During the year ended 30 June 20X3 debts totalling \$14,600 were written off. It was decided that the receivables allowance should be \$16,000 as at 30 June 20X3.

What amount should appear in Q's statement of profit or loss for receivables expense for the year ended 30 June 20X3?

- A \$12,600
- B \$16,600
- C \$48,600
- D \$30,600

(2 marks)

- 11.3 At 30 September 20X2 a company's allowance for receivables amounted to \$38,000, which was five per cent of the receivables at that date.

At 30 September 20X3 receivables totalled \$868,500. It was decided to write off \$28,500 of debts as irrecoverable and to keep the allowance for receivables at five per cent of receivables.

What should be the charge in the statement of profit or loss for the year ended 30 September 20X3 for receivables expense?

- A \$42,000
- B \$33,925
- C \$70,500
- D \$32,500

(2 marks)

- 11.4 At 1 July 20X3 a limited liability company had an allowance for receivables of \$83,000.

During the year ended 30 June 20X4 debts totalling \$146,000 were written off. At 30 June 20X4 it was decided that a receivables allowance of \$218,000 was required.

What figure should appear in the company's statement of profit or loss for the year ended 30 June 20X4 for receivables expense?

- A \$155,000
- B \$364,000
- C \$281,000
- D \$11,000

(2 marks)

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- 11.5 A company has received cash for a debt that was previously written off. Which of the following is the correct double entry to record the cash received?

	<i>Debit</i>	<i>Credit</i>
A	Irrecoverable debts expense	Accounts receivable
B	Cash	Irrecoverable debts expense
C	Allowance for receivables	Accounts receivable
D	Cash	Allowance for receivables

(2 marks)

- 11.6 At 31 December 20X4 a company's trade receivables totalled \$864,000 and the allowance for receivables was \$48,000.

It was decided that debts totalling \$13,000 were to be written off, and the allowance for receivables adjusted to five per cent of the receivables.

What figures should appear in the statement of financial position for trade receivables (after deducting the allowance) and in the statement of profit or loss for receivables expense?

	<i>Statement of profit or loss</i>	<i>Statement of financial position</i>
	\$	\$
A	8,200	807,800
B	7,550	808,450
C	18,450	808,450
D	55,550	808,450

(2 marks)
