

**Subject BA3**

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**Fundamentals of Financial  
Accounting**

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**EXAM PRACTICE KIT**



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# SYLLABUS GUIDANCE, LEARNING OBJECTIVES AND VERBS

## A THE CERTIFICATE IN BUSINESS ACCOUNTING (CERT BA)

The Cert BA provides a foundation in the essential elements of accounting and business. This includes the Fundamentals of Business Economics. There are four subject areas, which are all tested by computer-based assessment (CBA). The four subjects are:

- BA1: Fundamentals of Business Economics
- BA2: Fundamentals of Management Accounting
- BA3: Fundamentals of Financial Accounting
- BA4: Fundamentals of Ethics, Corporate Governance and Business Law

The Cert BA is both a qualification in its own right and an entry route to the next stage in CIMA's examination structure.

The examination structure after the Certificate comprises:

- Operational Level
- Managerial Level
- Strategic Level

The CIMA Qualification includes more advanced topics in Accounting and Business. It is therefore very important that you apply yourself to Fundamentals of Business Economics, not only because it is part of the Certificate, but also as a platform for more advanced studies. It is thus an important step in becoming a qualified member of the Chartered Institute of Management Accountants.

## B AIMS OF THE SYLLABUS

The aims of the syllabus are

- to provide for the Institute, together with the practical experience requirements, an adequate basis for assuring society that those admitted to membership are competent to act as management accountants for entities, whether in manufacturing, commercial or service organisations, in the public or private sectors of the economy;
- to enable the Institute to examine whether prospective members have an adequate knowledge, understanding and mastery of the stated body of knowledge and skills;
- to complement the Institute's practical experience and skills development requirements.

## C STUDY WEIGHTINGS

A percentage weighting is shown against each topic in the syllabus. This is intended as a guide to the proportion of study time each topic requires.

All topics in the syllabus must be studied, since any single examination question may examine more than one topic, or carry a higher proportion of marks than the percentage study time suggested.

The weightings do not specify the number of marks that will be allocated to topics in the examination.

## D CIMA'S HIERARCHY OF LEARNING OBJECTIVES

CIMA places great importance on the definition of verbs in structuring Objective Test Examinations. It is therefore crucial that you understand the verbs in order to appreciate the depth and breadth of a topic and the level of skill required. The CIMA Cert BA syllabus learning outcomes and objective test questions will focus on levels one, two and three of the CIMA's hierarchy of learning objectives (knowledge, comprehension and application). However, as you progress to the Operational, Management and Strategic levels of the CIMA Professional Qualification, testing will include levels four and five of the hierarchy. As you complete your CIMA Professional Qualification, you can therefore expect to be tested on knowledge, comprehension, application, analysis and evaluation.

In CIMA Cert BA Objective Test Examinations you will meet verbs from only levels 1, 2, and 3 of the hierarchy which are as follows:

Skill level	Verbs used	Definition
<b>Level 1 Knowledge</b> What you are expected to know	List State Define Outline	Make a list of Express, fully or clearly, the details/facts of Give the exact meaning of Give a summary of

For example you could be asked to define economic terms such as 'inflation' (BA1), or to define the term 'management accounting' (BA2) or to state the accounting entries required to record the revaluation surplus arising on revaluation of land and buildings (BA3).

Skill level	Verbs used	Definition
<b>Level 2 Comprehension</b> What you are expected to understand	Describe Distinguish Explain Identify Illustrate	Communicate the key features of Highlight the differences between Make clear or intelligible/state the meaning or purpose of Recognise, establish or select after consideration Use an example to describe or explain something

For example you could be asked to explain the components of the circular flow of funds (BA1), or distinguish between financial accounting and management accounting (BA3) or distinguish between express terms and implied terms of a contract of employment (BA4).

Skill level	Verbs used	Definition
<b>Level 3</b> <b>Application</b> How you are expected to apply your knowledge	Apply Calculate Conduct Demonstrate Prepare Reconcile	Put to practical use Ascertain or reckon mathematically Organise and carry out Prove with certainty or exhibit by practical means Make or get ready for use Make or prove consistent/compatible

For example you could be asked to reconcile the differences between profits calculated using absorption costing and marginal costing (BA2), or to calculate the gain or loss on disposal of a noncurrent asset (BA3) or to apply relevant principles to determine the outcome of a law-based or ethical problem (BA4).

For reference, levels 4 and 5 of the hierarchy require demonstration of analysis and evaluation skills respectively. Further detail on levels 4 and 5 of the hierarchy which are tested in the CIMA Professional Qualification can be obtained from the CIMA website, [www.cimaglobal.com](http://www.cimaglobal.com).





# OBJECTIVE TESTS

Objective Test questions require you to choose or provide a response to a question whose correct answer is predetermined.

The most common types of Objective Test question you will see are:

- **multiple choice**, where you have to choose the correct answer(s) from a list of possible answers – this could either be numbers or text.
- **multiple response** with more choices and answers, for example, choosing two correct answers from a list of five available answers – this could either be numbers or text.
- **number entry**, where you give your numeric answer to one or more parts of a question, for example, gross profit is \$25,000 and the accrual for heat and light charges is \$750.
- **drag and drop**, where you match one or more items with others from the list available, for example, matching several accounting terms with the appropriate definition
- **drop down**, where you choose the correct answer from those available in a drop down menu, for example, choosing the correct calculation of an accounting ratio, or stating whether an individual statement is true or false. This can also be included with a number entry style question.
- **hot spot**, where, for example, you use your computer cursor or mouse to identify the point of profit maximisation on a graph

CIMA has provided the following guidance relating to the format of questions and their marking:

- questions which require narrative responses to be typed will not be used
- for number entry questions, clear guidance will usually be given about the format in which the answer is required e.g. 'to the nearest \$' or 'to two decimal places'.
- item set questions provide a scenario which then forms the basis of more than one question (usually 2 and 4 questions). These sets of questions would appear together in the test and are most likely to appear in BA2 and BA3
- all questions are independent so that, where questions are based on a common item set scenario, each question will be distinct and the answer to a later question will not be dependent upon answering an earlier question correctly
- all items are equally weighted and, where a question consists of more than one element, all elements must be answered correctly for the question to be marked correct.

Throughout this Exam Practice Kit we have introduced these types of questions, but obviously we have had to label answers A, B, C etc. rather than using click boxes. For convenience we have retained quite a few questions where an initial scenario leads to a number of sub-questions. There will be questions of this type in the Objective Test Examination but they will rarely have more than three sub-questions.

## **Guidance re CIMA on-screen calculator**

As part of the CIMA Objective Test software, candidates are provided with a calculator. This calculator is on-screen and is available for the duration of the assessment. The calculator is available in Objective Test Examinations for BA1, BA2 and BA3 (it is not required for BA4).

Guidance regarding calculator use in the Objective Test Examinations is available online at: <https://connect.cimaglobal.com/>

## **CIMA Cert BA Objective Tests**

The Objective Tests are a two-hour assessment comprising compulsory questions, each with one or more parts. There will be no choice and all questions should be attempted. The number of questions in each assessment are as follows:

**BA1** Fundamentals of Business Economics – 60 questions

**BA2** Fundamentals of Management Accounting – 60 questions

**BA3** Fundamentals of Financial Accounting – 60 questions

**BA4** Fundamentals of Ethics, Corporate Governance and Business Law – 85 questions

**Information concerning formulae and tables will be provided via the CIMA website:  
[www.cimaglobal.com](http://www.cimaglobal.com).**

# SYLLABUS OUTLINE

## BA3: Fundamentals of Financial Accounting

### Syllabus overview

The main objective of this subject is to obtain a practical understanding of financial accounting and the process behind the preparation of financial statements for single entities.

These statements are prepared within a conceptual and regulatory framework requiring an understanding of the role of legislation and of accounting standards. The need to understand and apply necessary controls for accounting systems, and the nature of errors is also covered. There is an introduction to measuring financial performance with the calculation of basic ratios.

Note: Students are required to be aware of the format and content of published accounts but are not required to prepare them. No detailed knowledge of any specific accounting treatment contained in the International Financial Reporting Standards (IFRSs) – including the International Accounting Standards (IASs) – is necessary, except in terms IAS 2 and the treatment of inventory, IAS 16 and IAS 38 for basic non-current asset transactions.

IAS 1 and IAS 7 formats will form the basis of the financial statements. The terminology used for all entities will be that of International Financial Reporting Standards. This will enable students to use a consistent set of accounting terms throughout their studies.

### Assessment strategy

There will be a two hour computer based assessment, comprising 60 compulsory objective test questions. Short scenarios may be given to which one or more objective test questions relate.

### Syllabus structure

The syllabus comprises the following topics and weightings:

Content area		Weighting
A	Accounting principles, concepts and regulations	10%
B	Recording accounting transactions	50%
C	Preparation of accounts for single entities	30%
D	Analysis of financial statements	10%
		<b>100%</b>



# LEARNING OUTCOMES AND INDICATIVE SYLLABUS CONTENT

## BA3A: Accounting principles, concepts and regulations (10%)

### Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Explain the principles and concepts of financial accounting.	a. Explain the need for accounting records.	2	• Accounting records to be kept and their uses; concept of stewardship.
	b. Identify the needs of different user groups.	2	• Users of accounts and their information needs.
	c. Distinguish between the purposes of financial and management accounts.	2	• Functions of financial and management accounts; purpose of accounting statements.
	d. Explain capital and revenue, cash and profit, income and expenditure, assets and liabilities.	2	• Capital and revenue; cash and profit; income, expenditure, assets and liabilities.
	e. Explain the underlying assumptions, policies and accounting estimates.	2	• Underlying assumptions, policies, accounting estimates; historical cost convention; qualitative characteristics of the Framework, elements of financial statements.
	f. Identify the need for and information to be included in an integrated report.	2	• The principles and elements of the Framework for integrated reporting.
	g. Describe the accounting equation.	2	• The accounting equation formula.
	h. Explain the need for accounting codes.	2	• Use of coding in record keeping.
2. Explain the impact of the regulatory framework on financial accounting.	a. Explain the influence of legislation and accounting standards on published accounting information.	2	• Regulatory influence of company law; role of accounting standards; IASs and IFRSs; formats for published accounts.

## BA3B: Recording accounting transactions (50%)

### Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Prepare accounting records.	a. Prepare the books of prime entry.	3	<ul style="list-style-type: none"> <li>Record sales, purchase, income and expense transactions in the sales day book, purchase day book, cash book, returns books, and sales/purchase ledger.</li> <li>The accounting equation; double-entry bookkeeping rules; journal entries.</li> <li>Record all types of business transactions in nominal ledger accounts.</li> <li>Completing the trial balance from given ledger account balances.</li> <li>Errors including those of principle, omission, and commission.</li> <li>Journal entries and suspense accounts.</li> <li>In accordance with IAS 16 – acquisition, depreciation (straight line, reducing balance), revaluation, impairment and disposal of tangibles.</li> <li>In accordance with IAS 38 – intangibles and amortisation.</li> <li>Information to be recorded in a non-current asset register.</li> </ul>
	b. Apply the principles of double- entry bookkeeping.	3	
	c. Prepare nominal ledger accounts.	3	
	d. Prepare the trial balance.	3	
	e. Explain the nature of accounting errors.	2	
	f. Prepare accounting entries for the correction of errors.	3	
	g. Prepare accounting entries for non-current assets.	3	
	h. Prepare a non-current asset register.	3	
2. Prepare accounting reconciliations.	a. Prepare bank reconciliation statements.	3	<ul style="list-style-type: none"> <li>Reconciliation of the cashbook to the bank statement.</li> <li>Using the imprest system for petty cash.</li> <li>Reconciliation of sales and purchase ledger control accounts to sales and purchase ledgers.</li> </ul>
	b. Prepare petty cash statements under an imprest system.	3	
	c. Prepare sales and purchase ledger control account reconciliations.	3	
3. Prepare accounting entries for specific transactions.	a. Calculate sales tax.	3	<ul style="list-style-type: none"> <li>Calculation of sales tax on all business transactions.</li> <li>Accounting entries for sales tax.</li> </ul> <p><b>Note:</b> No knowledge of any specific tax systems/rules/rates will be required.</p> <ul style="list-style-type: none"> <li>Accounting entries for basic payroll information.</li> </ul> <p><b>Note:</b> No knowledge of any specific income tax rules will be required.</p> <ul style="list-style-type: none"> <li>Issue at full market price, rights issue and bonus issue.</li> </ul>
	b. Prepare accounting entries for sales tax.	3	
	c. Prepare accounting entries for payroll.	3	
	d. Prepare accounting entries for the issue of shares.	3	

## BA3C: Preparation of accounts for single entities (30%)

### Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Prepare accounting adjustments.	a. Prepare accounting entries for accruals and prepayments.	3	<ul style="list-style-type: none"> <li>Calculations and journals for accruals and prepayments (income and expenses).</li> <li>Prepare journals for irrecoverable debts and allowances for receivables from given information.</li> <li>In accordance with IAS 2 – calculation of the figure for closing inventory for inclusion in the financial statements (FIFO, LIFO and average cost) and the journal entry to record it.</li> </ul>
	b. Prepare accounting entries for irrecoverable debts and allowances for receivables.	3	
	c. Prepare accounting entries for inventories.	3	
2. Prepare manufacturing accounts.	a. Prepare basic manufacturing accounts.	3	<ul style="list-style-type: none"> <li>Manufacturing accounts produced from given information.</li> </ul> <p><b>Note:</b> No calculation of overheads and inventory balances is required.</p>
3. Prepare financial statements for a single entity.	a. Prepare financial statements from a trial balance.	3	<ul style="list-style-type: none"> <li>In accordance with IAS 1 – Statement of profit or loss and other comprehensive income; statement of financial position; statement of changes in equity.</li> <li>Calculate missing numbers using the accounting equation, profit margins and mark-ups, receivables and payables ledgers, and cash and bank ledgers.</li> <li>In accordance with IAS 7 – operating, investing and financing sections.</li> </ul>
	b. Prepare financial statements from incomplete records.	3	
	c. Prepare a statement of cash flows.	3	

## BA3D: Analysis of financial statements (10%)

### Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Identify information provided by accounting ratios.	a. Identify the information provided by the calculation of accounting ratios.	2	<ul style="list-style-type: none"><li>Information provided by accounting ratios.</li><li>Reasons for the changes in accounting ratios.</li></ul>
	b. Identify reasons for the changes in accounting ratios.	2	
2. Calculate basic accounting ratios.	a. Calculation of profitability ratios.	3	<ul style="list-style-type: none"><li>Ratios: return on capital employed; gross, operating and net profit margins; non-current asset turnover.</li><li>Trade receivables collection period and trade payables payment period; current and quick ratios; inventory turnover.</li><li>Gearing and interest cover.</li></ul>
	b. Calculation of liquidity ratios.	3	
	c. Calculation of risk ratios.	3	

Information concerning formulae and tables will be provided via the CIMA website, [www.cimaglobal.com](http://www.cimaglobal.com).



## Section 1

# OBJECTIVE TEST QUESTIONS

### ACCOUNTING PRINCIPLES, CONCEPTS AND REGULATIONS

#### EXPLAIN THE PRINCIPLES AND CONCEPTS OF FINANCIAL ACCOUNTING

**1 Which THREE of the following are accounting conventions?**

- A Prudence
- B Consistency
- C Depreciation
- D Accruals

**2 Capital maintenance is important for:**

- A the sources of finance
- B the measurement of profit
- C the relationship of debt to equity
- D the purchase of non-current assets

**3 If, at the end of the financial year, a an entity makes a charge against the profit for stationery consumed but not yet invoiced, this adjustment is in accordance with the convention of:**

- A materiality
- B accruals
- C consistency
- D objectivity

**4 Drag the correct wording from the following list to complete the sentence regarding the historical cost convention.**

The historic cost convention\_\_\_\_\_.

- fails to take account of changing price levels over time
- records only past transactions
- values all assets at their cost to the business, without any adjustment for depreciation
- has been replaced in accounting records by a system of current cost accounting