NCUK

NCUK INTERNATIONAL YEAR ONE BUSINESS

IDBFA001 Introduction to Financial Accounting

2016-2017

Mark Scheme

Section A
Answer ALL questions. This section carries 35 marks.

Question A1

a) Woakes & Sons **[25]**

Plant Working Notes

1) Cost

- Cost £120,000
- Disposal 30,000
- C/fwd 90,000

2) Depreciation provision

- Bal b/fwd £48,000
- Disposal 6,000 [2 years @ 3,000]
- Balance 42,000
- Depreciation for year 9,000 [90,000 @ 10%]
- Bal c/fwd 51,000

3) Disposals

- Plant cost £30,000
- Depreciation 6,000
- Net value 24,000
- Sale 15,000
- Loss on disposal 9,000

Woakes & Son Statement of Profit or Loss for year ending 31st December 2016

	£	£	£
Sales			735,000
Less returns			25,000
			710,000
Less cost of sales:			
Opening inventory		88,000	
Purchases	280,000		
Carriage in	12,000		
		292,000	
		380,000	
Less closing inventory		93,000	
			287,000
Gross Profit			423,000
Less expenses:			
Wages and salaries	£1,500 p/paid	90,000	
Discounts allowed		6,000	
Utility payment	£3,000 accrued	36,000	
Vehicle maintenance	£2,000 accrued	12,000	
Advertising	£1,500 accrued	13,000	
Bad debts		2,500	
Increase in allowance for d/debts	[(5% x52,000)-1,100]	1,500	
Interest on loan	accrued	12,000	

Depreciation on plant		9,000	
Loss on plant disposal		9,000	
Depreciation on vehicles	[(80,000 - 40,000) x 0.25]	10,000	
Depreciation on premises	400,000/50	8,000	
			209,000
Net Profit			214,000

Woakes & Son: Position Statement as at 31st December 2016

	£	£	£
	Cost	**Depreciation**	**NBV**
Non-Current Assets:			
Premises	400,000	168,000	232,000
Plant	90,000	51,000	39,000
Vehicles	80,000	50,000	30,000
			301,000
Current Assets:			
Inventory		93,000	
Receivables	52,000		
Less allowance for d/debts	2,600	49,400	
Prepaid wages		1,500	
Bank		3,200	147,100
			448,100
Capital and Liabilities			
Capital [1-1-16]			142,500
Net profit for period		214,000	
Less drawings		55,000	159,000
			301,500
Non-Current Liabilities			
Bank loan [12%]			100,000
Current Liabilities			
Account payables		28,100	
Accrued expenses		6,500	
Accrued interest		12,000	46,600
			448,100

Allocation of Marks:

Statement of Profit or Loss:

- Layout and terminology in line with IAS1. **(1)**
- Correct gross profit. **(1)**
- Depreciation of plant correctly calculated per working note. **(2)** **[1 mark** can be given for the correct method (e.g. if the student calculates 10% of £120,000, missing out the disposal)]
- Loss on disposal correctly calculated. **(1)**
- Depreciation of vehicles correctly calculated. **(1)**
- Depreciation of premises correctly calculated. **(1)**
- Wages prepayment identified and correctly adjusted. **(1)**
- Accruals for utilities; vehicle maintenance; marketing expenses all identified and correctly adjusted. **(3)** **(1 for each)**
- Interest owing recognised and entered correctly. **(1)**
- Correct adjustment for allowance for doubtful debts. **(1)**
- Correct net profit figure, reflecting overall accuracy of work. **(1)**

Statement of Financial Position

- Structure and terminology in line with IAS 1. **(1)**
- Plant balance. **(1)**
- Vehicle balance. **(1)**
- Premises balance. **(1)**
- Correct treatment of receivables. **(1)**
- Correct treatment of prepaid expense and accrued expenses. **(2) [0.5 mark each]**
- Inclusion of interest owing as current liability. **(1)**
- Adjusting bank balance to reflect disposal. **(2)**
- Final balances of assets and capital/liabilities agree, reflecting complete accuracy of work throughout question. **(1)**

b) The key to gaining high marks in this question is for the student to recognise that it states '*in the context of acquiring a non-current asset*' **[7]**

- Student clearly understands that the question relates to capital expenditure. **(1)**
- Student understands the relevance of materiality in that, where the non-current asset acquired is of minor/negligible importance to the business then it may be charged completely to the revenue account in the year of acquisition even though it may provide value for several years. **(1)**
- Student able to clearly explain the key elements of how capital expenditure is treated in the accounts:
  - Student shows he/she understands that in acquiring a non-current asset [i.e. piece of machinery/ vehicle etc.] the business will probably derive value over a number of accounting periods. **(1)**
  - The matching [accrual] basis requires that the benefit [income] from the asset be matched against the cost of using that asset within the given accounting time period. **(1)**
  - In accounting terms this means the asset should be capitalised [i.e. entered into the position statement] in the year of acquisition **(1)** and charged to the revenue account [P&L] over the useful life of the asset by means of some acceptable method of depreciation. **(1)**

Student completes answer by giving an appropriate example to show that there is a degree of subjectivity in applying materiality – e.g. a multi -billion-pound business that acquires [say] £10,000 of office equipment might charge that to P&L whereas a small business with a turnover of [say] £100,000 would certainly capitalise. **(1)**

c) The journal entry should be: **[3]**

	Dr [£]	Cr [£]
Drawings	1,500	
Purchases		1,500

Marks allocated:

- Identifying the correct amount. **(1)**
- Identifying the correct accounts. **(1)** (**0.5 marks** may be allocated if student identifies the account as 'stock' or 'inventory')
- Identifying the correct debit/credit. **(1)**

Section B
Answer 2 questions only. This section carries 40 marks.

Question B1

a) i) **[8]**

	£		£
Uncorrected balance b/d	12,900	Contra entry omitted	450
Sales omitted	900	Irrecoverable debt omitted	250
Bank: dishonoured cheque	410	Returns inward omitted	270
		Amended balance c/d	13,240
	14,210		14,210

Ali & Son Receivables Control Account

[7]

Marks allocated:

- Correct opening entry on debit side of account. **(1)**
- 5 entries correctly identified and entered on correct side of account. **(5)**
- Final balance correct, reflecting arithmetic accuracy and [more importantly] the non-inclusion on non-relevant items. **(2)** [Award **1 mark** for authentic accuracy and **1 mark** for non-inclusion of non-relevant items]

ii)

Statement Adjusting Ali & Son List of Personal Account Balances

	£	£
Original balance total		13,220
Add:		
Debit balances omitted [ii]	350	
Debit balance understated [iv]	150	500
		13,720
Less:		
Transposition error: understating cash received [iii]	90	
Cash debited instead of credit (2 x 150) [vii]	300	
Understatement of cash received (100-10) [ix]	90	480
		13,240

Marks allocated:

- Identifying and adjusting correctly each of the five entries. **(5)**
- Agreeing final balance to control account, reflecting both accuracy and the understanding required to only include relevant items. **(2) [**Award **1 mark** for authentic accuracy and **1 mark** for non-inclusion of non-relevant items]

b) Could be any of the following: **[5]**

- Error of omission – completely missing the entry from the accounting books [i.e. both sides]
- Errors of commission – correct entry [in amounts] made, but to the wrong account; e.g. to the debit the wrong personal account in the receivables balance.
- Error of principle – double entry made but error of basic principle made in the recording of the transaction, e.g. purchase of non-current asset entered in purchases account
- Compensating error – two errors of equal and opposite amount made, leaving accounts still in balance
- Errors of original entry – original figure from the prime entry books is incorrect but the double entry thereafter maintained correctly
- Also - reversal of entries and transposition errors also acceptable

Marks allocated:

- 1 mark for each correctly identified error, with brief accompanying narrative. **(Total: 5)**

Question B2

a) i) Basic rule: **[3]**

- Inventory valued at the lower of **cost** or **net realisable value. (1)**
- Cost normally arrived at by using either **FIFO** [first in first out] or **AVCO** [average cost] methods of valuing inventory. **(2)**

ii) Selling price not an appropriate methodology as this would: **[4]**

- Anticipate profit before the goods were sold (**2)**
- Which in turn would be in line with either the accruals (matching) basis or the general requirement for 'prudence' in preparing of financial statements. **(2)**

b) i) FIFO basis: **[4]**

Date of issue	Quantity [units]	Value issued	Cost of £	Issues £
7th June	300	200 @ £3.00 [open bal] 100 @ £3.25	600 325	 925
22nd June	400	400@ £3.25		1,300
30th June	Closing bal	200 @ £3.30 200 @ £3.40	660 680	 1,340

Marks allocated:

- 1 mark for correct value of issues on 7th and 22nd June. **(2)**
- 2 marks for correct final closing balance, reflecting both arithmetic accuracy and application of correct principle throughout. **(2)**

ii) AVCO basis **[7]**

Date	Received Units	Issued Units	Balance Units	Inventory Value [£]	Unit Cost [£]	Price of Issue [£]
June 1			200	600	3.00	
June 4	500			1,625	3.25	
			700	2,225	3.18	
June 7		300		(954)	3.18	954
			400	1,271	3.18	
June 11	200			660	3.30	
			600	1,931	3.22	
June 17	200			680	3.40	
			800	2,611	3.26	
June 22		400		(1,304)	3.26	1,304
			400	1,307		
June 30	Closing balance		**400**	**1,307**		

Note (check) closing balance + issues = £3,565 [even with minor roundings]

Marks allocated:

- 2 mark for showing basic understanding of AVCO principle. **(2)**
- 2 marks for each of the issues, correctly priced (accepting very minor rounding errors) **(4)**
- 1 mark for final balance (accepting +/- rounding of £2). **(1)**

iii) Simply – the higher the closing inventory valuation the lower the cost of sales and the higher gross profit **(1)**. **[2]**

If inventory prices are rising, then FIFO will tend to produce higher gross profit figures than AVCO. **(1)** (must include/describe link between inventory valuation; cost of sales and gross profit for full mark)

Question B3

a) Vince: Working Notes **[17]**

1) Receivables Account

	£		£
Opening balance	131,500 **(1)**	Cash received	635,400 **(1)**
Credit sales [bal]	643,900 **(1)**	Closing balance	140,000
	775,400		775,400

2) Total sales:

	£
Credit	643,900
Cash	91,100
	735,000 **(1)**

3) Purchases:

	£
Sales [150%]	735,000
Cost of sales [100%]	490,000 **(2)**

	£
Opening inventory	42,000
Purchases [balancing figure]	499,000 **(2)**
Closing inventory	(51,000)
Cost of sales	490,000

4) Creditors Expense Account:

	£		£
Opening prepaid bal.	3,100 **(1)**	Opening accruals bal.	3,800 **(1)**
Bank	90,300 **(0.5)**	Expenses [bal. figure]	96,100 **(2)**
Cash	5,300 **(0.5)**	Closing prepaid bal.	3,700
Closing accruals bal.	4,900		
	103,600		103,600

5) Creditors Account – Purchases

	£		£
Bank	510,600 **(0.5)**	Opening balance	74,200 **(1)**
Cash	16,500 **(0.5)**		
Closing balance	80,500	Purchases [bal. figure]	533,400 **(1)**
	607,600		607,600

Vince: Statement of Profit or Loss y/e 31st December 2016

	£	£
Sales		735,000
Cost of Sales:		
Opening inventory	42,000	
Purchases	499,000	
Closing inventory	(51,000)	
		490,000
Gross profit		245,000
Expenses		96,100
Net Profit		148,900 **(1)**

Marks allocated:

- As indicated above.

(Note, partial credit can be given to students who may make an initial error of principle or arithmetic error in one part of the question but who provide evidence of knowledge and understanding thereafter)

b) Inventory taken for own use: **[3]**

- Purchases per P&L: £499,000. **(1)**
- Purchases per accounts: £533,400. **(1)**
- Therefore, goods for own use must be the difference, i.e. £34,400. **(1)**