

NCUK

NCUK INTERNATIONAL YEAR ONE BUSINESS

IDBFA001 Introduction to Financial Accounting

2016-2017

Examination Session
Semester 2

Time Allowed
2 Hours 40 minutes
(including 10 minutes reading time)

INSTRUCTIONS TO STUDENTS

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

Section B: Answer 2 questions ONLY. This section carries 40 marks.

The marks for each question are indicated in square brackets [].

The total mark for this paper is 75.

- Answers must not be written during the first 10 minutes.
- An approved calculator may be used in the examination.
- Show **ALL** workings in your answer booklet.
- Examination materials must not be removed from the examination room.

**DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED BY THE
INVIGILATOR**

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Section A

Answer ALL Questions. This section carries 35 marks

Question 1

Woakes and Sons are a long established wholesaler of stationery items in the North of England. Their trial balance for the year ending 31st December 2016 is shown below:

	Dr [£]	Cr [£]
Plant and machinery at cost [1-1-16]	120,000	
Vehicles at cost [1-1-16]	80,000	
Premises at cost [1-1-16]	400,000	
Provision for depreciation, plant [1-1-16]		48,000
Provision for depreciation, vehicles [1-1-16]		40,000
Provision for depreciation, premises [1-1-16]		160,000
Sales revenue		735,000
Sales returns	25,000	
Purchases	280,000	
Carriage in	12,000	
Wages and salaries	91,500	
Discounts allowed	6,000	
Utility costs	33,000	
Motor vehicle maintenance costs	10,000	
Advertising and marketing costs	11,500	
Irrecoverable debts	2,500	
General allowance for receivables		1,100
Bank		11,800
Accounts payable		28,100
Accounts receivable	52,000	
Inventory [1-1-16]	88,000	
Drawings	55,000	
Bank Loan [12%]		100,000
Capital		142,500
	1,266,500	1,266,500

Notes:

1. Inventory at 31-12-16 was valued at £93,000
2. Woakes' salary bill is £7,500 per month
3. Utility bill payments are agreed with the supplier at £3,000 per month
4. Woakes has an agreement with his local garage to pay £1,000 per month to cover all vehicle maintenance costs
5. Woakes has an unpaid invoice of £1,500 for a marketing company for work carried out in December 2016
6. A 5% general allowance should be created for receivables
7. Plant purchased during 2014 and costing £30,000 was disposed of in 2016 for £15,000 [full year depreciation in the year of acquisition and nothing in the year of disposal]. Woakes has made no entries in the accounts regarding this disposal.
8. Depreciation as follows:
 - Premises straight line over 50 years
 - Plant 10% straight line
 - Vehicles 25% reducing balance

Required:

- (a) Prepare a statement of profit or loss for year ending 31st December 2016 and a position statement as at that date. **(As far as possible, the structure and terminology of the statements should be in line with IAS1)** [25]
- (b) Explain the **materiality characteristic**, *within the context of deciding how to record the acquisition of a non-current asset in the accounts of the business* [7]
- (c) In January 2017 Woakes took goods from inventory, costing £1,500 for his own use. These goods would have had a selling price of £2,500. [3]

Required:

Show the journal entry {narrative not required} required to record the above transaction.

Section B

Answer TWO questions out of Three

Question B1

- (a)** Ali & Sons sell goods on credit to most of their customers. To support its receivables collection system, the business operates a receivables control account. In preparing the financial statements till 30th September 2016, the accountant identifies the total balances on the receivables (sales) ledger account as £13,220, whereas the balance on the receivables ledger control account is £12,900.

Investigation by the accountant reveals:

- i. Sales for week ending 5th August 2016 amounting to £900 had been omitted from the control account.
- ii. A customer's account balance of £350 had not been included in the list of balances from the receivables ledger.
- iii. Cash received of £650 had been entered in the personal account and cash book as £560.
- iv. A personal account balance had been undercast (under added) by £150.
- v. A contra entry item of £450 with the payables ledger had not been entered in the control account.
- vi. An irrecoverable debt of £250 had not been entered in the control account.
- vii. Cash received of £150 had been debited to the relevant personal account in the receivables ledger.
- viii. Return inwards amounting to £270 had not been included in the control account.
- ix. Cash received of £100 had been credited to the personal account as £10.
- x. A cheque for £410 received from a customer had been dishonoured by the bank, but no adjustments had been made to the control account.

Required:

- (i)** Prepare a corrected receivables control account, bringing down the amended balance at 1st October 2016. **[8]**
 - (ii)** Prepare a statement, correcting the personal account balances in the receivables ledger so they agree with the control account balance. **[7]**
- b)** Identify and describe five types of error that would not affect the balancing of a trial balance. **[5]**

Question B2

- (a) (i) Outline briefly the basic rules for valuing inventory within a business. [3]
- (ii) Explain why using selling price as a means of inventory valuation would not be appropriate for a business. [4]
- (b) The following inventory transactions were recorded in the books of Cook & Co. during the month of June 2016:

	Quantity (Units)	Unit Cost (£)	Total Cost (£)
Opening balance 1 st June	200	3.00	600
Receipts, 4 th June	500	3.25	1,625
Issues, 7 th June	300		
Receipts, 11 th June	200	3.30	660
Receipts, 17 th June	200	3.40	680
Issues, 22 nd June	400		
Closing stock. 30 th June	400		
			3,565

Required:

- (i) Identify the cost of issues and closing inventory valuation using FIFO (first in first out) method of inventory pricing. [4]
- (ii) Identify the cost of issues and closing inventory valuation using AVCO (average cost) method [calculations to the nearest £]. [7]
- (iii) Explain which of the above approaches (only based on the figures given) would result in the higher gross profit figure. [2]

Question B3

Vince is a sole trader who does not yet maintain a complete set of accounting records.

He provides the following information to his accountant for the year ending 31st December 2016:

1) Assets and liabilities: As of 31st December

	2015	2016
	£	£
Inventory	42,000	51,000
Receivables	131,500	140,000
Expenses paid in advance	3,100	3,700
Payables	74,200	80,500
Accrued expenses	3,800	4,900

2) Bank Summary

		£			£
2015			2016		
1 st Jan	Balance	30,250	31 st Dec	Purchases	510,600
2016				Expenses	90,300
31 st Dec	Cash banked	17,250		Drawings	36,000
	Receipts from credit sales	<u>635,400</u>		Balance	<u>46,000</u>
		<u>682,900</u>			<u>682,900</u>

3) Cash Summary

		£			£
2015			2016		
1 st Jan	Balance	800	31 st Dec	Cash banked	17,250
2016				Purchases	16,500
31 st Dec	Cash sales	91,100		Expenses	5,300
				Drawings	51,500
				Balance	<u>1,350</u>
		<u>91,900</u>			<u>91,900</u>

- 4) Vince has taken goods from inventory for personal use but has kept no records of their cost. The cost of these goods (when calculated) should be deducted from purchases in the statement of profit or loss
- 5) Vince arrives at selling price by adding 50% to the cost price of goods purchased

Required:

- (a) Prepare Vince's Statement of Profit or Loss for year ending 31st December 2016. **[17]**
- (b) Calculate the cost of goods taken by Vince from inventory during the year. **[3]**

This is the end of the examination

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