



NCUK INTERNATIONAL YEAR ONE BUSINESS

IDBFA001 Introduction to Financial Accounting

2017–2018

Examination Session
Semester 1

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.

The Exam Constitutes 75% of the Total Marks for this subject.

- 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 A1

Assam & Sons are specialist tea merchants and have been trading in the UK for many years.

The following balances were extracted from the ledger at 31st December 2017:

	Dr [£]	Cr [£]
Capital		78,700
Sales		291,650
Accounts payable		19,100
Returns out		12,150
Allowance for receivables		900
Discount allowed	3,700	
Discount received		1,100
Purchases	115,750	
Returns inward	950	
Carriage outwards	2,800	
Drawings	37,250	
Carriage in	8,100	
Rent	25,000	
Insurance	6,150	
Electricity	9,600	
Advertising and marketing costs	7,750	
Office expenses	4,700	
Salaries and wages	41,000	
Irrecoverable debts	2,400	
Cash	650	
Bank	10,000	
Inventory at 1 st January 2017	20,250	
Accounts receivable	19,800	
Fixtures and fitting at cost	150,250	
Provision for depreciation at 31 st December 2017		80,500
Depreciation	<u>18,000</u>	
	<u>484,100</u>	<u>484,100</u>

Notes:

1. Inventory at 31st December 2017 was valued at £24,900
2. Insurance has been paid for the 15-month period ending 31st March 2018
3. Electricity is charged at the rate of £900 per calendar month
4. The rent includes £5,000 payment for Henry Assam's (son of the owner) luxury flat
5. The allowance for receivables is to be adjusted to 5% of year-end receivables

Section A continues on the following page.

Required:

- (a) Prepare Assam & Sons statement of profit or loss for year ending 31st December 2017 and a position statement as at that date. **[17]**
- (b) The following information relates to a manufacturing business for year ended 30th September 2017:

	£
Inventory at 1 st October 2016:	
Raw materials	18,000
Work in progress	7,500
Finished goods	44,750
Inventory at 30 th September 2017:	
Raw materials	21,000
Work in progress	9,000
Finished goods	41,500
Purchase of raw materials	77,000
Direct wages	92,250
Royalties on goods sold	6,000
Production overheads	105,000
Distribution costs	80,500
Administration expenses	66,000
Sales	515,000

Required:

- Calculate the cost of completed goods manufactured for the year ended 30th September 2017. **[8]**
- (c) Identify and explain the **two** fundamental qualitative characteristics of useful financial information. **[10]**

Section B

Answer TWO questions out of three. This section carries 40 marks.

Question B1

- (a) A&B Co. rents property to clients, both residential and commercial. For the year ended 31st December 2017, A&B received rents totalling £395,000.

Rents received in advance and in arrears at the beginning and end of the year are shown below:

	31st December 2016	31st December 2017
	£	£
Rents received in advance	44,250	31,900
Rents in arrears	33,600	32,850

Required:

[8]

Draft a ledger (T) account to indicate the rental income that should be included in A&B's statement of profit or loss for year ended 31st December 2017.

- (b) Coates prepares its business accounts to the 31st December each year. For the year ending 31st December 2016 Coates faced irrecoverable debts of £7,500 and also decided to create an allowance for receivables of £4,000.

In 2017 a further £2,200 of debts were deemed irrecoverable but a previous irrecoverable debt of £450 was settled in full. Outstanding receivables at 31st December 2017 were £100,000 and Coates set the allowance on receivables at 5% of year end receivables.

In 2018, additional debts of £3,100 were written off as irredeemable. Year-end receivables were £90,000 and the allowance on these receivables remained at 5%.

Required:

For each of the three years complete Coates':

- | | |
|---|-------|
| (i) Irrecoverable debts account | [1] |
| (ii) Allowance on receivables account | [5] |
| (iii) P&L extracts related to the above entries | [4] |
| (iv) For 2018 only , the position statement extracts for receivables | [2] |

Section B continues on the following page.

Question B2

- (a) Lorry & Co complete their accounts to 31st December 2017 but at the year end the trial balance does not balance and a figure of £1,220 is entered as a credit in a suspense account. Further investigations reveal the following errors:
- 1) A sale of goods on credit for £1,650 had been omitted from the sales account
 - 2) A new item of plant, recently delivered and costing £620 had been recorded as a revenue expense.
 - 3) Cash discount of £230 on paying supplier S Carton was taken, even though the payment made was past the time limit.
 - 4) Inventory of sundry office supplies of £430 at 31st December had been ignored.
 - 5) Purchase of raw materials for £360 had been recorded in the purchases account as £630
 - 6) A purchase returns day book included a sales credit note for £350 which had been correctly entered in the customer's account but had been included with purchase returns in the nominal (general) ledger.

Required:

- (i) Prepare journal entries to correct each of the above errors. [7]
Note that narratives are not required.
- (ii) Open the suspense account and show the errors correctly cleared. [4]
- (iii) Lorry & Co had originally reported a gross profit of £55,000 and a net profit of £29,000.
Calculate the revised gross and net profits after the correction of the errors. [9]

Section B continues on the following page.

Question B3

C Darnay operates as a trader dealing in second hand books and works of art. He has been in business for several years, maintaining his financial records through a cash payments and receipts system.

Darnay's cash receipts and payments for year to 31st December 2017 is indicated below:

	£		£
Bal b/d	7,700	Drawings	10,200
Sales receipts	71,800	Purchase payments	59,900
Proceeds from sale of second hand Jaguar car	4,200	Vehicle expenses	5,200
Loan from J Mannette	<u>8,000</u>	Rent on shop	3,600
		Wages	8,000
		Balance c/d	<u>4,800</u>
	<u>91,700</u>		91,700

Notes:

- The Jaguar car was left to Darnay in the will of an aunt
- The loan from Mannette was received on 1st October 2017 and interest is payable at 15% p.a.
- Darnay employed a sales assistant P Stryver on 1st July 2017. As well as wages Stryver will be paid a bonus of 5% on sales for the period. (Sales are assumed to be earned at an even rate over the year)
- The following assets and liabilities of Darnay are noted:

	31-12-16 [£]	31-12-17 [£]
Vehicle at cost	20,000	20,000
Inventory at cost	9,000	14,000
Trade receivables	2,200	10,400
Vehicle expenses prepaid		500
Rent accrued		700
Trade payables	3,100	1,200

- Darnay, after taking advice, decides to charge depreciation on the van at 25% on cost for financial year to 31st December 2017.

Required:

- (a) Complete the following for C Darnay:
- Sales and purchase ledger control accounts to identify sales and purchases for 2017. [2]
 - Opening statement of affairs to ascertain Darnay's capital at 1st January 2017. [1]
 - A statement of profit or loss for year ended 31st December 2017 and a position statement as at that date. [14]
- (b) Comment briefly on Darnay's results and indicate any action he might be advised to take. [3]

- This is the end of the exam -

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