

NCUK

NCUK INTERNATIONAL YEAR ONE BUSINESS

IDBFA001 Introduction to Financial Accounting

2017-2018

Exam

Mark Scheme

Notice to Markers

This mark scheme should be used in conjunction with the NCUK Centre Marking and Recording results policy, available from the secure area of the NCUK website (<http://www.ncuk.ac.uk>). Contact your Principal/Academic Manager if you do not have login details.

Error Carried Forward:

Whenever a question asks the student to calculate - or otherwise produce - a piece of information that is to be used later in the question, the marker should consider the possibility of error carried forward (ECF). When a student has made an error in deriving a value or other information, provided that the student correctly applies the method in subsequent parts of the question, the student should be awarded the Method marks for the part question. The student should never be awarded the Accuracy marks, unless a follow through is clearly indicated in the mark scheme. When this happens, write ECF next to the ticks.

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

Question A1

a) Assam & Sons: Statement of Profit or Loss for y/e 31-12-17

[17]

	£	£
Sales		291,650
Less returns		950
		290,700
Less cost of sales:		
Opening inventory	20,250	
Purchases (115,750 -12,150)	103,600	
Carriage in	<u>8,100</u>	
	131,950	
Less closing inventory	<u>24,900</u>	
		107,050
Gross profit		183,650
Discounts received		<u>1,100</u>
		184,750
Less expenses:		
Discounts allowed	3,700	
Carriage out	2,800	
Rent (5,000 debit to drawings)	20,000	
Insurance (6,150/15 x 12)	4,920	
Electricity (900 x 12)	10,800	
Advertising and marketing	7,750	
Office expenses	4,700	
Salaries and wages	41,000	
Irrecoverable debts	2,400	
Increase in receivables allowance [(19,800 x 5%) -900]	90	
Depreciation	<u>18,000</u>	
		<u>116,160</u>
Net Profit		68,590

Additional working notes:

1. Drawings increased to £42,250 to take account of rental on personal property
2. Insurance pre-payment is 3 months x £410 = £1,230
3. Electricity accrual = £10,800 - £9,600 = £1,200
4. Year-end receivables = £19,800 - £990 = £18,810
5. Note, finally, depreciated has been fully accounted for through the trial balance so no further adjustment required

Assam & Sons: Position Statement as at 31-12-17

	£	£
Assets		
Non-current assets:		
Fixtures and fittings at cost	150,250	
Less depreciation	<u>80,500</u>	
		69,750
Current assets:		
Inventory	24,900	
Receivables less allowance	18,810	
Prepaid expense	1,230	
Bank	10,000	
Cash	<u>650</u>	<u>55,590</u>
		125,340
Capital and liabilities		
Capital (1-1-17)		78,700
Profit	68,590	
Less drawings	<u>42,250</u>	<u>26,340</u>
		105,040
Current liabilities		
Payables	19,100	
Accrued expenses	<u>1,200</u>	<u>20,300</u>
		125,340

Marks allocated:**Profit or loss:**

- Gross profit correctly calculated, inclusive of carriage in (correct without carriage in 1 mark). **(2)**
- Rent, adjusted per notes. **(1)**
- Insurance, adjusted per notes. **(1)**
- Electricity, adjusted per notes. **(1)**
- Allowance for receivables, adjusted per notes. **(1)**
- Use of depreciation figure as given (understanding that adjustment already made in TB). **(1)**
- Correct profit balance reflecting accuracy of calculations. **(1)**

Position Statement:

- Receivables figure adjusted correctly. **(1)**
- Prepaid expense figure entered correctly as current asset. **(1)**
- Adjusted drawings figure correctly deducted from profit. **(1)**
- Accrued expenses entered correctly as current liability. **(1)**
- Final balances agreed, reflecting accuracy and adherence to principle across the question. **(1)**

Structure:

Reflecting the importance of structure/layout for final accounting statements the following additional marks will be awarded:

- Correctly structured Statement of Profit or Loss, including: **(1)**
 - Clear heading with dates.
 - Layout that distinguishes gross profit from net profit calculation.
 - Uses correct terminology throughout.
- Correctly structured Position Statement, including:
 - Clear heading with dates. **(0.5)**
 - Assets divided into 'non-current' and 'current' and totalled. **(0.5)**
 - Capital clearly shown as opening + profit – drawings. **(1)**
 - Current liabilities highlighted below capital and added to it to equate to assets. **(0.5)**
 - Correct terminology throughout. **(0.5)**

b) Cost of completed goods manufactured in year to 30th September 2017:

[8]

	£	£
Opening inventory of raw materials		18,000
Purchases		<u>77,000</u>
		95,000
Less closing inventory of raw materials		<u>21,000</u>
		74,000 (1)
Direct wages		<u>92,250</u> (1)
Prime cost		166,250 (1)
Production overheads		<u>105,000</u> (1)
		271,250
Opening work in progress	7,500	
Closing work in progress	<u>(9,000)</u>	<u>(1,500)</u> (1)
Cost of goods completed		269,750

Marks allocated:

- Figures highlighted above all included in statement. **(5)**
- Layout of statement as shown. **(1)**
- Final balance as calculated. (high tariff reflects credit for not including irrelevant balances). **(2)**

c) Qualitative Characteristics: [10]

- Student must be able to identify the two qualitative characteristics - **relevance and faithful representation** (1 mark for each) **(2)**
- Key points regarding **relevance**:
 - Must be useful – i.e. capable of making a difference to the users. **(1)**
 - Must be produced in a timely manner – information which is late, even if accurate has no value. **(1)**
 - Useful information will be able to either **predict** or **confirm** (or perhaps both) financial information/events of interest to the users. **(1)**
 - Relevant information will be **material** to the users (i.e. to make a difference to decisions the information should not be trivial or of negligible size in the context of the entity as a whole). **(1)**
- Key points regarding **faithful representation**:
 - The information should be complete – all necessary detail provided to the user. **(1)**
 - The information should be neutral – the information does not contain bias to allow manipulation/undue influence of the user. **(1)**
 - The information should be free from error – as far as is reasonably possible in extracting information from the underlying documents to the final user statements. Note, useful information may well contain estimates that may be more or less accurate depending on how the estimates were made. **(1)**
 - Faithful representation assumes **substance over form** (i.e. economic reality always takes precedence over legal form). **(1)**

Section B

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

Question B1

a)

[8]

A&B Rental Income y/e 31st December 2017

		£			£
Jan 1	Bal b/f	33,600	Jan 1	Bal b/f	44,250
Dec 31	P&L (balance figure)	406,600	Dec 31	Cash	395,000
Dec 31	Bal c/f	31,900	Dec 31	Bal c/f	32,850
		472,100			472,100

£406,600 is transferred to A&B's P&L statement.

Marks allocated:

- 1 mark for correctly entering each opening and closing balance and for entering the cash figure. **(5)**
- Correctly identifying the P&L figure as the balancing item (this mark may be credited if entered correctly in principle where opening/closing balances are incorrect). **(1)**
- A correctly structured 'T' account including dates and simple narrative (these marks not available if student answers question by other method). **(2)**

b)

i) Irrecoverable Debts

[1]

31 st Dec.		£	31 st Dec.		£
2016	Receivables	7,500	2016	P&L	7,500
2017	Receivables	1,750	2017	P&L	1,750*
2018	Receivables	3,100	2018	P&L	3,100

*After the recovery of £450 has been credited. Would also accept £2,200.

Marks allocated:

- Correctly entering the three debit balances as transfers from receivables. **(0.5)**
- Correctly entering the three credit balances as transfers to P&L. **(0.5)**

ii) Allowance for Receivables

[5]

		£			£
			2016		
Dec 31	Bal c/d	<u>4,000</u>	Dec 31	P&L	<u>4,000</u>
			2017		
			Jan 1	Bal b/d	4,000
Dec 31	Bal c/d	<u>5,000</u>	Dec 31	P&L	<u>1,000</u>
		5,000			5,000
			2018		
Dec 31	P&L	500	Jan 1	Bal b/d	5,000
Dec 31	Bal c/d	<u>4,500</u>			
		5,000			5,000

Marks allocated:

- Correct opening credit entry. (1)
- Required adjustment for 2017. (1)
- Correct balance c/d to 2018. (1)
- Required adjustment in 2018. (1)
- Correct balance c/d to 2019. (1)

Note: Refer to page 2 of the mark scheme for the rule regarding ECF.

iii) Profit & Loss extracts:

[4]

	£
2016:	
Irrecoverable debts	7,500
Allowance for receivables	4,000
2017:	
Irrecoverable debts	2,200
Less debts recovered	<u>450</u>
	1,750
Increase in allowance for receivables	1,000
2018:	
Irrecoverable debts	3,100
Decrease in allowance for receivables	(500)

Marks allocated:

- Correct two entries for 2016. (1)
- For 2017:
 - Correctly identifying debts recovered as set-off against irrecoverable debts and identifying correct net figure. (1)
 - Identifying the increase in allowance as an expense. (1)
- Correct two entries for 2018. (1)

iv) 2018 Position Statement extract:**[2]**

Receivables	£90,000
Less allowance	<u>4,500</u>
	£85,500

Marks allocated:

- For showing both the receivables figure with the deduction of the allowance **and** the correct net figure. **(2)**

Question B2**a) i) Journal:****[7]**

		Dr (£)	Cr (£)
1)	Suspense	1,650	
	Sales		1,650
2)	Plant account	620	
	Machinery expense account		620
3)	Discounts received	230	
	S. Carton		230
4)	Office supplies inventory	430	
	Office supplies expense account		430
5)	Suspense	270	
	Purchases		270
6)	Purchase returns	350	
	Sales returns	350	
	Suspense		700

Marks allocated:

- Journal entries 1-5
 - 1 mark for each wholly entry completed correctly. **(5)**
 - Partial marks not accepted.
- Journal entry 6
 - 2 marks for a correct entry. **(2)**

ii) Suspense Account:

[4]

	£		£
Sales	1,650	Year-end balance	1,220
Purchases	<u>270</u>	Purchase/sales returns	<u>700</u>
	1,920		1,920

Marks allocated:

- 1 mark for each of the three correct entries into the suspense account. **(3)**
- 1 mark for recognising opening balance as a credit. **(1)**

iii) Profit adjustment:

[9]

	£
Gross Profit:	
Original, as reported	55,000
Sales omitted	1,650
Incorrect recording of purchases	270
Sales credit note wrongly allocated	<u>(700)</u>
Adjusted GP	56,220
Net Profit:	
As reported	29,000
Amendment to GP £ (56,220 – 55,000)	1,220
Wrongly allocated revenue expense	(620)
Cash discount incorrectly taken	(230)
Office supplies inventory	<u>430</u>
Adjusted profit for year	29,800

Marks allocated:

- 1 mark for each of the six errors identified and adjusted correctly. **(6)**
- 2 marks for carrying down the gross profit adjustment to the net profit – this reflects **both** the understanding that difference must be carried down **and** making the correct adjustment to the errors between gross and net profit. **(2)**
- 1 mark for correct final net profit, reflecting both accuracy and completeness of understanding. **(1)**

Question B3

a) i) Control Accounts:

[2]

Sales Ledger

	£		£
Bal b/d	2,200	Sales receipts	71,800
Sales	<u>80,000</u>	Bal c/d	<u>10,400</u>
	82,200		82,200

Purchase Ledger

	£		£
Purchase payments	59,900	Bal b/d	3,100
Bal c/d	<u>1,200</u>	Purchases	<u>58,000</u>
	61,100		61,100

Marks allocated:

- 1 mark each for correctly calculating sales and purchase figures. **(2)**

ii) Opening Statement of Affairs:

[1]

	£
Vehicle	20,000
Inventory	9,000
Receivables	2,200
Cash/bank	<u>7,700</u>
	38,900
Less payables	<u>(3,100)</u>
Capital at 1 st January 2017	35,800

Mark allocated

- 1 mark for identifying the opening capital balance. **(1)**

iii) Final Accounts:

[14]Darnay: Statement of Profit or Loss for year ended 31st Dec. 2017

	£	£
Sales		80,000
Less cost of sales:		
Opening inventory	9,000	
Purchases	<u>58,000</u>	
	67,000	
Closing inventory	<u>(14,000)</u>	
		<u>53,000</u>
Gross profit		27,000
Less expenses:		
Vehicle {5,200 - 500}	4,700	
Rent {3,600 + 700}	4,300	
Wages	8,000	
Bonus {5% x 40,000}	2,000	
Loan interest {15% x 8,000 x 3/12}	300	

Depreciation (20,000 x 25%)	<u>5,000</u>	
		<u>24,300</u>
Net Profit		2,700

Darnay: Position Statement as at 31st December 2017

	£	£
Assets		
Non-current assets		
Vehicle	20,000	
Less depreciation	<u>5,000</u>	15,000
Current assets		
Inventory	14,000	
Receivables	10,400	
Prepaid expense	500	
Cash/bank	<u>4,800</u>	<u>29,700</u>
		44,700
Capital and Liabilities		
Opening capital		35,800
Capital introduced (sale of car)		<u>4,200</u>
		40,000
Profit for year	2,700	
Drawings	<u>(10,200)</u>	<u>(7,500)</u>
		32,500
Non-current liabilities		
Loan (Mannette)		8,000
Current liabilities		
Payables	1,200	
Accrued rent	700	
Bonus owing	2,000	
Interest owing	<u>300</u>	<u>4,200</u>
		44,700

Marks Allocated:

P&L Statement:

- Gross profit correctly calculated. (Note: Refer to page 2 for ECF rules on sales/purchases) **(1)**
- 1 mark each for correct calculation of vehicle expenses; rent; bonus payment; loan interest and depreciation. **(5)**
- Correct final net profit, reflecting both accuracy and adherence to correct principle throughout. **(1)**

Position Statement:

- 1 mark each for correctly including the four adjustments for accruals and prepayments. **(4)**
- 1 mark for treating cash from car sale as capital injection (i.e. non-business revenue). **(1)**

- 1 mark for balances agreeing, reflecting accuracy and adherence to correct principle across the question. **(1)**
- 1 mark for appropriate structure and correct terminology within position statement. **(1)**

b)

[3]

Acceptable points:

- Darnay's trading profit is very low and well below the level of drawings.
- Darnay needs to review level of drawings.
- More likely, Darnay needs to review expenses and in particular the decision to employ Stryver. The profits come nowhere near justifying an extra member of staff on wages + bonus.

Marks allocated:

- 1 mark for commenting on low level of profits. **(1)**
- 1 mark each for any further two comments on Darnay's business – per above or similar. **(2)**