

NCUK

NCUK INTERNATIONAL YEAR ONE BUSINESS

IDBFN001 Financial Accounting 1

2019-2020

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. 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.

Question A1**a) Boston Financial Statements**

Working Notes:

1) Vehicles depreciation

Cost			
	£		£
Bal b/d	80,000	Disposal	30,000
		Bal c/d	<u>50,000</u>
	80,000		80,000

Provision for Depreciation			
	£		£
Prov. for depreciation (3 years @ £3,000)	9,000	Bal b/d	40,000
Bal c/d	<u>39,000</u>	P&L (10% x £80,000)	<u>8,000</u>
	48,000		48,000

Disposal			
	£		£
Vehicles	30,000	Prov. for depreciation	9,000
		Bank	15,000
		P&L (loss)	<u>6,000</u>
	30,000		30,000

2) Heat and power:

- o Yearly charge = $12/15 \times £30,000 = £24,000$
- o Prepayment = £6,000

3) Commission owing ($1\% \times £500,000$) - £4,000 = £1,0004) Rent owing = $£60,000 \times 2/10 = £12,000$. (Charge = £72,000)

5) Receivables allowance:

- o $£50,000 \times 10\% = £5,000$
- o Increase = £3,200

6) Vehicle expense p/paid = £1,000

Boston: Statement of Profit or Loss for y/e 31st December 2019

	£	£
Sales		990,600
Less returns		<u>4,600</u>
		986,000
Less cost of sales:		
Opening inventory	105,750	
Purchases	615,200	
Carriage-in	<u>3,800</u>	
	724,750	
Less closing inventory	<u>145,000</u>	<u>579,750</u>
Gross profit		406,250

Less expenses:		
Wages	96,000	
Rent	72,000	
Heat and power	24,000	
Vehicle expenses	6,000	
Irrecoverable debt	3,500	
Inc. in receivables allowance	3,200	
Loan interest	16,000	
Commission	5,000	
Depreciation:		
Plant and equipment	80,000	
Vehicles (8,000 + 6,000)	14,000	
Fixtures	<u>6,000</u>	<u>325,700</u>
Net Profit		<u>80,550</u>

Marks allocated:

- Correct calculation of GP. (1)
- Depreciation correctly calculated for each of the non-current assets. (3)
- Disposal loss correctly calculated and included in P&L. (1)
- Following adjustments correctly included in P&L:
 - Wages owing. (1)
 - Commission owing. (1)
 - Motor expenses p/paid. (1)
 - Accrued rent. (1)
 - Prepaid heat and power. (1)
 - Receivables allowance adjustment. (1)
 - Interest owing. (1)
- Correct final net profit reflecting complete accuracy and adherence to principles. (1)

[13 marks]**Boston: Position Statement as at 31st December 2019**

	Cost	Depreciation	NBV
	£	£	£
Assets			
<i>Non-current assets</i>			
Plant and equipment	510,000	190,000	320,000
Vehicles	50,000	39,000	11,000
Fixtures	120,000	42,000	<u>78,000</u>
			409,000
<i>Current assets</i>			
Inventory		145,000	
Receivables	152,000		
Less allowance	<u>5,000</u>	147,000	

Prepaid expenses:			
Vehicle	1,000		
Heat and power	<u>6,000</u>	<u>7,000</u>	<u>299,000</u>
			<u>708,000</u>
Capital and Liabilities			
Capital (1-1-19)			183,300
Profit for year		80,550	
Less drawings		<u>18,000</u>	<u>62,550</u>
			245,850
<i>Non-current liabilities</i>			
10% Loan			160,000
<i>Current liabilities</i>			
Payables		70,150	
Interest owing		8,000	
Wages due		6,000	
Rent accrued		12,000	
Commission owing		1,000	
Bank (220,000 -15,000)		<u>205,000</u>	<u>302,150</u>
			<u>708,000</u>

Marks allocated:

- Correct vehicle balance. (1)
- Receivables adjusted correctly. (1)
- Prepayments entered as current asset:
 - Motor expenses. (0.5)
 - Heat and power. (0.5)
- Accruals entered as current liability:
 - Wages. (0.5)
 - Commission. (0.5)
 - Rent. (0.5)
 - Interest. (0.5)
- Bank correctly adjusted for sale of asset. (1)
- Overall correct balances reflecting complete accuracy throughout and overall adherence to principle. (2)
- Appropriate layout and correct terminology applied. (1)

[9 marks]**Overall: 22 marks**

b) Errors not impacting on trial balance:

- Error of omission – simply missing a transaction completely from the books of account.
- Error of commission – entry completed but in the wrong account (e.g. cash received from J Smith posted to credit of J Smythe).
- Error of principle – items entered in the wrong class of account (e.g. income from disposal of plant entered to sales).
- Compensating error – two equal and opposite errors made, cancelling each other out.
- Error of original entry – original figure is incorrect but subsequent double entry is correctly applied, using wrong figure.
- Reversal of entries – correct accounts are entered but each entry is in the wrong account (e.g. cash is received from X and we credit cash and debit X).

Marks allocated:

- 1 mark for each error identified with a brief but clear explanation.

[6 marks]**c)****i)**

- Building depreciation = $2.5\% \times \text{£}800 = \text{£}20$. (1)
- Plant depreciation = $20\% \times (150 - 25) = \text{£}25$. (1)
- Journal entries:

	Dr	Cr
	£000	£000
Buildings accumulated depreciation		20
Plant accumulated depreciation		25
Cost of sales (or depreciation expense)	45	

Marks allocated:

- 2 marks as above.
- Student presents information in appropriate journal format. (1)
- Correct debit and credit entries. (1)

[4 marks]**ii)**

- Increase in receivable allowance = $[5\% \times 240] - 9 = 3$. (1)
- Journal entry:

	Dr	Cr
	£000	£000
Allowance for receivables		3
Administration expenses (or irrecoverable debts)	3	

Marks allocated:

- 1 mark as above.
- Student presents information in appropriate journal format. (1)
- Correct debit and credit entry. (1)

[3 marks]**Section B****Question B1**

a)

Plant & Equipment (carrying value)

	£		£
Bal b/d	220,000	Depreciation charge for year	35,000
Plant purchased	25,000	Carry value of plant sold. (bal)	82,000
		Bal c/d	<u>128,000</u>
	245,000		245,000

- Carrying value of plant sold: £82,000
- Loss on disposal: £12,000
- Proceeds of sale = £70,000

Marks allocated:

- Student correctly enters opening and closing plant balances. (1)
- Student correctly depreciation charge and plant purchase. (1)
- Student derives value of plant sold as balancing figure. (1)
- Student derives sale proceeds from the figure above and loss. (1)

[4 marks]

b)

Rent Received Account

	£		£
Bal b/f (arrears)	5,250	Bal b/f (advance)	145,000
P&L	942,700	Cash (balance fig.)	948,650
Bal c/f (advance)	<u>152,100</u>	Bal c/f (arrears)	<u>6,400</u>
	1,100,050		1,100,050

Marks allocated:

- Opening balances correctly entered. (1)
- Closing balances correctly entered. (1)
- P&L figure correctly entered. (1)
- Derive cash received as balance. (1)

[4 marks]

c)

	£		£
Cash paid	844,700	Opening balance	196,000
Discounts received	9,700	Purchases	805,000
Purchase returns	32,400	Refunds (suppliers)	1,900
Contras	36,000		
Closing balance	<u>80,100</u>		
	1,002,900		1,002,900

Marks allocated:

- Amending opening balance. (1)
- Amending refunds. (1)
- Amending discounts received. (1)
- Amending contras. (1)
- Deriving correct closing balance, reflecting both complete understanding of principles and arithmetic accuracy. (2)

[6 marks]

d)

Student identifies any three of the following:

- **Comparability:** allowing users to identify similarities in and differences among financial information. In particular the ability to compare information between similar business and to compare information for the same business over time is valuable.
- **Verifiability:** helps to assure users that the information faithfully represents the underlying financial position of the business. Information that has been independently verified will normally be more useful than information that has not been.
- **Timeliness:** Providing information that is sufficiently up to date to allow users to make informed decisions.
- **Understandability:** Information should be presented clearly and precisely, in such a way that a reasonably informed user could make sense of and make decisions on the basis of the information.

Marks allocated:

- 1 mark for correctly identifying three characteristics. (3)
- 1 mark for brief explanation of each characteristic identified. (3)

[6 marks]

Question B2

a)

Update cashbook:

	£	£
Original cashbook balance. (1)		(950)
Add (i.e. debit):		
Incorrect credit of £120 to CB (should be debit). (2)	240	
Update dividends. (1)	560	
Cheque drawn on personal account. (2)	160	
Cancellation of outdated cheque. (2)	<u>70</u>	<u>1,030</u>
		80
Less:		
Undercast payments. (1)	60	
Bank charges. (1)	<u>90</u>	<u>150</u>
Amended CB balance		(70)

Marks allocated:

- 10 marks as indicated above (note 2 marks for slightly trickier adjustments).
- Update clearly presented (1) with correct final balance, representing overall accuracy. (1)

[12 marks]

b)

Lexington Bank Reconciliation as at 31st August 2019

	£	£
Bal. per bank statement at 31-8-19 (1)		90
Add:		
Outstanding lodgements. (1)	400	
International account interest. (2)	<u>120</u>	<u>520</u>
		610
Less unpresented cheques (750 -70). (2)		680
Revised bank statement (per CB)		(70)

Marks allocated:

- 6 marks as above.
- Final agreement of CB and bank balances, representing overall accuracy and full understanding of principles. (2)

[8 marks]

Question B3

a)

i)

Journal:

	Dr [£]	Cr [£]
1. Debit Suspense	1,100	
Credit Sales		1,100
2. Debit Discount received	300	
Credit X and Y (or payables)		300
3. Debit Plant	400	
Credit Installation Costs (P&L)		400
4. Debit Stationery inventory (or prepayments)	195	
Credit Stationery expenses (P&L)		195
5. Debit Suspense	700	
Credit Purchases		700
6. Debit Purchase returns	275	
Debit Sales returns	275	
Credit Suspense		550

Marks allocated:

- 1 mark each for entries 1 -5. (5)
- 2 marks for entry 6. (2)

[7 marks]

ii)

Suspense A/c

	£		£
Sales	1,100	Bal b/fwd	1,250
Purchases	<u>700</u>	Purchase/sales returns	<u>550</u>
	1,800		1,800

Marks allocated:

- 1 mark for each correct adjustment. (3)
- 1 mark for correctly clearing the suspense balance. (1)

[4 marks]

iii)

Profit Adjustment:

	£	
Original gross profit	41,700	
Sales omitted	1,100	(0.5)
Plant cost wrongly allocated	400	(0.5)
Incorrect recording of purchases	700	(0.5)
Sales credit note wrongly allocated	(550)	(1)
Amended GP	43,350	
Net profit reported	19,950	
Adjustment to GP (43,350 -41,700)	1,650	(1)
Cash discount wrongly taken	(300)	(0.5)
Stationery inventory not recorded	195	(1)
Amended NP	21,495	

Marks allocated:

- 5 marks as indicated above.
- Additional 1 mark for correctly adjusted NP (i.e. reflecting accuracy and full adherence to principles)

[6 marks]

b)

Student simply identifies basic equation:

$$\text{Net profit} = \text{Opening net assets} + \text{drawings} - \text{capital introduced} - \text{closing net assets}$$

Marks allocated:

- Basic deduction of closing net assets from opening net assets. (1)
- Addition of drawings. (1)
- Deduction of fresh capital introduced. (1)

[3 marks]