

NCUK

NCUK INTERNATIONAL YEAR ONE BUSINESS

IDBFN001 Financial Accounting 1

2019-2020

Examination Session
Semester 1

Time Allowed
2 hour 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**

Section A

Answer ALL questions. This section carries 35 marks.

Question A1

Boston, a trading company, presents its trial balance for year/ending 31st December 2019:

	£	£
Non-current assets at cost (1-1-19):		
Plant and equipment	510,000	
Vehicles	80,000	
Fixtures	120,000	
Provision for depreciation (1-1-19):		
Plant and equipment		110,000
Vehicles		40,000
Fixtures		36,000
Inventory (1-1-19)	105,750	
Purchases	615,200	
Carriage-in	3,800	
Sales revenue		990,600
Sales returns	4,600	
Business rent	60,000	
Heat and power	30,000	
Wages	90,000	
Loan interest	8,000	
Vehicle running expenses	7,000	
Irrecoverable debt	3,500	
Allowance for debts over 12 months		1,800
Receivables	152,000	
Payables		70,150
Commission to agent	4,000	
Drawings	18,000	
Loan [10%]		160,000
Bank		220,000
Capital (1-1-19)		183,300
	<u>1,811,850</u>	<u>1,811,850</u>

Notes:

1. Inventory at 31st December 2019 was valued at £145,000.
2. Wages for Boston are £8,000 per month.
3. Depreciation is recorded as follows:
 - Plant and equipment, 20% reducing balance
 - Fixtures, 5% straight line
 - Vehicles, 10% straight line
4. During the year Boston disposed of a vehicle it had purchased in 2017 for £30,000. Disposal value was £15,000. No entries have been made in the books to reflect this

transaction. (Note, rather unusually Boston charges a full year's depreciation on assets in the year of disposal and acquisition, regardless of time scale.)

5. On reviewing the accounts Boston's auditor discovers that it has double paid a vehicle maintenance charge to Newark Garages of £1,000. This can be treated as an advanced payment against future bills in 2020.
6. The utility bill (heat and power) has been settled to 1st April 2020.
7. Boston has still to settle its rent charge for November and December 2019 (rent accrues evenly throughout the year).
8. Boston's agent earns commission of 1% on all sales up to £500,000.
9. Boston has £50,000 of receivables aged at 12 months or greater. Experience suggests allowance on those should be 10%.

Required:

- (a) Prepare a statement of profit or loss for Boston for year ended 31st December 2019 and a position statement as at that date. **[22]**
- (b) Identify, explaining very briefly, **six** types of book-keeping error that would **not** affect the balancing of a trial balance. **[6]**
- (c) The following are extracts from the trial balance of XYZ at 31st December 2019:

	Dr	Cr
	£000	£000
Buildings at cost	800	
Buildings: accumulated depreciation (1-1-19)		60
Plant at cost	150	
Plant: accumulated depreciation (1-1-19)		25
Trade receivables	240	
Allowance for receivables (1-1-19)		9

The following information is relevant:

1. Plant is depreciated at 20% reducing balance.
2. Buildings are depreciated at 2.5% on original cost.
3. Depreciation is a cost of sales expense.
4. Circumstances require the allowance on receivables to be increased to 5% of year-end trade receivables.
5. Allowance on trade receivables is an administration expense.

Required:

Prepare the year-end journal entries:

- (i) The adjustments required to record depreciation entries. **[4]**
- (ii) The adjustments required to record the allowance for receivable entry. **[3]**

Section B

Answer 2 questions only. This section carries 40 marks.

Question B1

- (a) The following financial extracts relate to Concord Ltd for years 2018 and 2019.

	2018	2019
	£	£
Plant & equipment [cost]	310,000	248,000
Accumulated depreciation	(90,000)	(120,000)

During 2019 the following occurred:

	£
Purchase of plant & equipment	25,000
Depreciation charge on plant & equipment	35,000
Loss on plant disposal	12,000

Required:

Identify the sale proceeds from the sale of plant.

[4]

- (b) Lowell owns a number of commercial properties which it rents to various clients. Information available at 30th September 2019 is as follows:

	Rent in advance	Rent in arrears
	£	£
30 th September 2018	145,000	5,250
30 th September 2019	152,100	6,400

Rental income entered into Lowell's P&L statement for year ending 30th September 2019 was £942,700.

Required:

Calculate the cash received from rents in the year to 30th September 2019.

[4]

- (c) An inexperienced book-keeper has produced the following payables ledger control account:

	£		£
Opening balance	196,000	Purchases	805,000
Cash paid to suppliers	844,700	Contras (against debit balances in receivables ledger)	36,000
Purchase returns	32,400	Discounts received	9,700
Refunds (suppliers)	<u>1,900</u>	Balance	<u>224,300</u>
	1,075,000		1,075,000

Required:

- Amend the account and extract the correct closing period balance. [6]
- (d) Identify and explain briefly three characteristics that enhance the qualitative characteristics of financial information. [6]

Question B2

On 31st August 2019 Lexington's cash book showed an overdraft balance of £950 and the latest month-end bank statement showed a credit balance of £90.

A check by the cashier revealed:

- a) Cheques received amounting to £400 had been entered in the cash book but not yet credited by the bank.
- b) On written instruction from Lexington the bank transferred £120 interest from an overseas account to its business current account. This transfer was recorded by the bank on 5th September 2019. Lexington credited its cash book with the transfer on 30th August 2019.
- c) Cheques drawn amounting to £750 had been entered in the cash book but not yet presented.
- d) Bank charges of £90 were recorded in the bank statement but had not been entered in the cash book.
- e) Dividend income of £560 was recorded in the bank statement but had, also, not yet been entered in the cash book.
- f) The payments side of the cash book had been under added by £60.
- g) A cheque for £160 drawn on a personal account of Lexington has been recorded in the cash book, as if drawn on the business current account.
- h) A cheque issued to Long Island Ltd. for £70 was replaced when it became out of date. It was re-entered into the cash book but both cheques are still included in the unpresented cheques detailed above.

Required:

- (a)** Make such adjustments as are required to correct and update the cash book as at 31st August 2019. **[12]**
- (b)** Prepare a statement reconciling the corrected cash book balance to the bank statement balance at 31st August 2019. **[8]**

Question B3

- (a)** The year end accounts of Vermont & Co revealed an imbalance in the trial balance. A suspense account was opened with a credit balance of £1,250.

The following errors were subsequently uncovered:

1. A sale of goods for £1,100 on credit had been omitted from the sales account.
2. A cash discount of £300 had been taken from a supplier, X and Y Ltd, even though the payment was well outside the agreed time limit.
3. Installation costs of £400 on a new item of plant had been recorded as a revenue expense.
4. Computer stationery inventory of £195 had been ignored at the period end.
5. A purchase of £250 for raw materials had been recorded in the purchases account as £950
6. The purchase returns book included a sales credit note for £275. This had been entered correctly in the account of the relevant customer but had been included with purchase returns in the nominal ledger.

Required:

- (i)** Prepare journal entries to correct each of the above errors. [7]
(narratives not required)
- (ii)** Open a suspense account and make the necessary corrections to close the account. [4]
- (iii)** Prior to the corrections Vermont had a gross profit of £41,700 and a net profit of £19,950.

Calculate the revised gross and net profits after the corrections. [6]
- (b)** A trader does not keep full accounting records. However, she knows or can estimate the following:
- Closing net assets.
 - Drawings.
 - New capital introduced to the business.
 - Opening net assets.
- Explain how would the trader use this information to estimate her yearly profit. [3]

- This is the end of the exam -