

# 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)

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### 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

The trial balance for Newport & Family, a successful trading business, for year ended 31<sup>st</sup> December 2019 is set out below:

	£	£
Non-current assets (cost):		
Premises	250,000	
Plant and equipment	350,000	
Fixtures	50,000	
Vehicles	75,000	
Provision for depreciation (1-1-19):		
Premises		60,000
Plant		140,000
Fixtures		30,000
Vehicles		45,000
Inventory (1-1-19)	71,250	
Purchases	105,400	
Sales revenue		230,700
Purchase returns		400
Carriage in	1,000	
Wages and salaries	35,000	
Electricity owing (1-1-19)		800
Electricity	5,500	
Irrecoverable debts	1,800	
Allowance for receivables		500
Recovered debts		200
Receivables	37,000	
Payables		14,900
Vehicle expenses	4,100	
Agent commission	1,700	
Loan [5%]		250,000
Drawings	28,000	
Bank		11,500
Capital		231,750
	<b>1,015,750</b>	<b>1,015,750</b>

Notes:

1. Inventory at 31<sup>st</sup> December 2019 was valued at £82,900.
2. The salary bill for Newport is constant at £3,000 per month.
3. The family take the monthly equivalent of the salary bill in drawings. Anything less than that will be withdrawn on 1<sup>st</sup> January 2020.
4. Premises are on a 50-year lease and are amortised (depreciated) accordingly.

5. Plant is depreciated at 10% straight line and fixtures at 25% reducing balance.
6. Vehicles are depreciated at 20% straight line. However, on 1<sup>st</sup> November 2019 Newport disposed of a vehicle acquired in 2017 for £10,000. Sale proceeds were £4,000. This transaction has not been recorded in the books. (Note, no depreciation is charged on assets in the year of disposal)
7. Newport is due to pay the agent 1% on all sales for the year (rounded to nearest hundred pounds).
8. Newport has engaged Providence Marketing at a monthly fee of £2,000 to develop and run their marketing plan. Providence was hired on 1<sup>st</sup> September 2019 but confusion in family responsibility has meant that this has yet to be accounted for.
9. Ageing receivables profile means that Newport believes the allowance on receivables should be increased to £1,000.
10. Newport has a year-end electricity bill unpaid of £700.

**Required:**

- (a)** Prepare Newport & Family's statement of profit or loss for year ended 31<sup>st</sup> December 2019 and a statement of financial position as at that date. **[27]**
- (b)** *Going concern* and *accruals basis* are central to preparing and presenting financial statements.

Explain each term above giving an appropriate example of how they impact on financial statements. **[ 8 ]**

## Section B

**Answer 2 questions only. This section carries 40 marks.**

### Question B1

- (a) The electricity account payments for Z Ltd for the year to 30<sup>th</sup> June 2019 are shown below:

	£
Opening balance for electricity accrued at 1-7-18	500
<b>Payments made during the year:</b>	
1 <sup>st</sup> August 2018 for 3 months to 31-7-18	800
1 <sup>st</sup> October 2018 for 2 months to 30-9-18	600
1 <sup>st</sup> February 2019 for 4 months to 31-1-19	1,000
30 <sup>th</sup> June 2019 for 3 months to 30-4-19	900
1 <sup>st</sup> August 2019 for 3 months to 31-7-19	900

#### Required:

Complete the electricity account for year to 30<sup>th</sup> June 2019 and identify the balance to be transferred to P&L. [ 4 ]

Note: you can assume the final 3 months electricity charge is known with reasonable certainty at the year-end.

- (b) A garage P, among other activities, sells fuel and makes up its financial statements to 31<sup>st</sup> August.

Fuel inventory at 1<sup>st</sup> September 2018 was £20,500 and outstanding invoices to suppliers were £2,200. During the year to 31<sup>st</sup> August 2019 fuel invoices of £92,300 have been paid and a delivery of £1,750 of fuel has yet to be invoiced.

At 31<sup>st</sup> August 2019 fuel inventory was valued at £14,270.

#### Required:

Calculate the fuel expenditure to be included in P's financial statements for year to 31<sup>st</sup> August 2019. [ 4 ]

- (c) JJ maintains his electricity and gas account payments under one account – 'Utility Charges (Gas and Electricity)'.

The following information relates to the financial year ending 31<sup>st</sup> December 2019:

- On 1<sup>st</sup> January 2019 electricity prepaid amounted to £1,500.
- On 1<sup>st</sup> January 2019 gas charges of £700 were owing.
- During 2019 electricity charges of £7,000 were paid.
- During 2019 gas charges of £4,600 were paid.
- On 31<sup>st</sup> December 2019 electricity charges of £700 were owing.
- On 31<sup>st</sup> December 2019 gas charges of £300 had been prepaid.

**Required:**

Complete the Utility Charges account, identifying what the 2019 P&L charges for gas and electricity should be (a separate account for each is required). [ 6 ]

- (d) Distinguish clearly between capital and revenue expenditure, explaining how each are treated in the financial statements. [ 6 ]

**Question B2**

- (a)** Cod Traders has the following transactions with a product Z over a two-year period.

2019 Opening inventory: Nil

- January: Buys 20 units at £400 per unit
- March: Buys 25 units at £300 per unit
- April: Sells 15 units at £600 per unit
- July: Buys 10 units at £250 per unit
- October: Sells 20 units at £600 per unit

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- February: Buys 20 units at £250 per unit
- May: Sells 10 units at £600 per unit
- September: Buys 25 units at £200 per unit
- November: Sells 55 units at £600 per unit

Cod values inventory on a FIFO basis.

**Required:**

Calculate for both 2019 and 2020, Cod Traders:

- (i)** Year-end inventory valuation. **[ 8 ]**
- (ii)** Net profit figures. **[ 4 ]**
- (It can be assumed that expenses will be 25% of gross profit).
- (b)** Outline what the impact on the profit figures over the two years would have been in AVCO valuation had been employed. (no need for any calculation unless you find it helpful in the explanation) **[ 3 ]**
- (c)** Inventory is normally valued at *cost*. **[ 5 ]**
- Explain what *cost* means in the context of inventory valuation.

**Question B3**

- (a) The books of account of Providence Co, at 31<sup>st</sup> December 2018 showed a receivables ledger with a debit balance of £9,145 and a credit balance of £115, while the payables ledger had a credit balance of £7,140 and a debit balance of £130.

For year ending 31<sup>st</sup> December 2019 the following information is relevant:

	<b>£</b>
Sales	70,700
Purchases	41,650
Cash from trade receivables	59,384
Cash paid to trade payables	39,265
Discount received	1,510
Returns inwards	1,117
Returns outwards	490
Irrecoverable debts written off	296
Cash received related to debit balance in payables ledger	130
Amounts due from customer in receivables ledger offset against balances in payables ledger	470
Allowance to customers for goods damaged in transit	260

As at 31<sup>st</sup> December 2019 the credit balance in the receivables ledger had not been cleared.

**Required:**

Record the above transactions, in the following control accounts, bringing down closing balances at 31<sup>st</sup> December 2019.

- (i) Receivables control account. **[ 9 ]**
- (ii) Payables control account. **[ 8 ]**
- (b) Identify three reasons why a business might maintain a control account. **[ 3 ]**

**- This is the end of the exam -**