

NCUK

NCUK INTERNATIONAL YEAR ONE BUSINESS

IDBFN001 Financial Accounting 1

2020-2021

Examination Session
Semester 1

Time Allowed
3 Hours 30 Minutes

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 be handwritten on paper. Once complete, your handwritten work must be clearly scanned or photographed and then inserted into a word-processed document for submission.
- Work must be submitted in a single word-processed file.
- You **MUST** show **ALL** of your workings.
- An approved calculator may be used in the examination.
- All work must be completed independently. The penalty for collusion is a mark of zero.
- Due to the nature of the questions, there should be no need to use external sources of information to answer them. If you do use external sources of information you must ensure you reference these. Plagiarism is a form of academic misconduct and will be penalised.
- Work must be submitted by the deadline provided. Your Study Centre can be contacted for guidance on submission of work and cannot comment on the contents of the assessment.

Section A

Answer ALL questions. This section carries 35 marks.

Question A1

J Donegal, a sole proprietor, presents his trial balance for year ended 31st December 2020:

	£	£
Sales		205,700
Purchases	104,580	
Plant and equipment (cost)	90,000	
Vehicles (cost)	62,000	
Inventory (1-1-20)	48,600	
Provision for depreciation (1-1-20):		
Plant and equipment		27,000
Vehicles		40,000
Returns in	700	
Carriage in	400	
Wages	37,000	
Rent	15,000	
Heat and light	6,000	
Irrecoverable debts	1,500	
Specific allowance for receivables		800
Receivables	42,000	
Payables		29,600
Rent owing (1-1-20)		2,000
Marketing expenses	3,000	
Fuel and vehicle maintenance	6,000	
15% Loan		80,000
Drawings	19,000	
Bank		15,000
Capital (1-1-20)		35,680
	435,780	435,780

Notes:

- 1) Inventory valued at £51,200 on 31st December 2020
- 2) Depreciation charged at 10% straight line on plant and equipment and 50% reducing balance on vehicles
- 3) Rental charge is for 15 months to 31st January 2021
- 4) The heating and lighting bill has been paid up to 31st October 2020. The charge accrues evenly through the year
- 5) Donegal pays £500 per month for vehicle fuel and maintenance costs. However, the business possesses an unpaid bill at 31st December 2020 from Ulster Garages Ltd for £1,500 for additional work required. Donegal accepts the charge is due for payment.
- 6) Donegal is fairly certain that £1,200 of receivables are unlikely to be paid

- 7) During the year Donegal disposed of an item of plant, purchased in 2018 for £10,000, for £6,000 (no depreciation in year of sale). This transaction has not been recorded in the books of account
- 8) Commission of 1% on net sales is due to be paid to an agent. This should be treated as a marketing expense.

Required:

- (a) Prepare Donegal's statement of profit or loss for year ended 31st December 2020 and a statement of financial position as at that date. **[25]**
- (b) A Mayo sub-lets part of her office premises to a number of clients (tenants).

In the year to 31st December 2020 Mayo received £246,000 cash from the tenants. The following information is also available regarding the rental payments:

	£	£
	31-12-20	31-12-19
Rents received in advance	18,600	17,400
Rents owing by tenants	15,150	14,200

It can be assumed that none of the tenants will default on rental payments.

Required:

- Identify the rental income figure that Mayo should include in her accounts for year ending 31st December 2020 **[5]**
- (c) Outline and briefly explain the basic rule for valuing inventory for the year end accounts. **[3]**
- (d) First in First out (FIFO) is one rule for determining the cost of inventory. **[2]** Identify the **other** widely used inventory pricing method and explain briefly how this rule is applied.

Section B

Answer 2 questions only. This section carries 40 marks.

Question B1

- (a) Antrim & Sons, a warehousing business, purchased 3 new packing machines on 1st January 2018 at a cost of £20,000 each. The machines have a useful life of 4 years, after which they would be scrapped with nil value.

Competition from a multi-national on-line supplier has reduced the business' competitiveness and on 1st July 2020 Antrim sells one of the machines for £7,000 to a rival business.

Antrim continues its downsizing and sells a second machine on 1st October 2020 for £4,000, believing that the business can operate perfectly efficiently in the future with just one machine.

Depreciation is calculated straight-line on a monthly basis.

Required:

For 2020 show the following ledger accounts for Antrim & Sons.

- | | | |
|-------|---|-------|
| (i) | Machinery Account | [2] |
| (ii) | Machinery - Accumulated Depreciation | [8] |
| (iii) | Machinery - Disposals | [5] |
| (b) | Explain clearly the purpose of depreciation. | [3] |
| (c) | Explain why the wages of an office worker would be regarded as revenue expenditure but the purchase of a large photo-copier for the office would be treated as capital expenditure. | [2] |

Question B2

- (a) J Cork has an imbalance on her trial balance which required the insertion of a £1,350 credit suspense account balance.

Her auditor uncovered the following errors:

- 1) The delivery and fitting of a new item of machinery, costing £350 had been treated as a cost of sale.
- 2) Cork claimed cash discount of £190 in paying supplier Galway Trading Ltd. However, the payment was made outside of the agreed time period on the invoice.
- 3) Credit sales for £1,650 had been omitted from the sales account.
- 4) Purchases of raw materials for £480 was recorded in the purchases account as £840
- 5) The purchase returns day book included a sales credit note for £330 which had been entered correctly in the personal account of the customer but had been included in the purchase returns account in the nominal ledger.
- 6) Closing inventory of fuel for Cork's van fleet amounting to £410 had not been accounted for.

Required:

- (i) Correct each of the above errors in Cork's accounts with appropriate journal entries (no need for accompanying narratives). [6]
- (ii) Show the necessary corrections to remove the suspense account from Cork's accounts. [4]
- (iii) Cork had recorded a gross profit of £37,900 and a net profit of £22,650, but this was prior to the audit adjustments. [6]
- Restate Cork's gross and net profit after the relevant corrections have been made.
- (b) The cash book of business X prior to presenting the statement of financial position on 31st December 2020 shows a bank balance of £675 overdrawn. On review it is discovered that:
- 1) A cheque for £105 drawn by X on 27th December has not yet been presented for payment
 - 2) A cheque for £300 from a customer was paid into the bank on 23rd December but was dishonoured on 31st December
 - 3) Bank charges of £110 appeared in the latest bank statement at 30th December, but were not in the cash book.

Required:

- Identify the correct bank balance that should appear in the statement of financial position at 31st December 2020. [4]

Question B3**(a)**

(i) Explain briefly why businesses need to produce financial statements [2]

(ii) Outline why managers and shareholders (owners) of a large company might be interested in different aspects of financial information. [5]

(b) The *Conceptual Framework* states that **faithful representation** is a fundamental qualitative characteristic of useful financial information.

Explain clearly what the *conceptual framework* means by 'faithful representation'. [10]

(c) The net assets of Kilkenny, a trader, at 1st January 2020 were £151,000. During the year Kilkenny invested a further £40,000 of capital into the business and made drawings of £65,000. At 31st December 2020 Kilkenny's net assets were £172,500.

Required:

Calculate Kilkenny's profit for 2020.

[3]

- This is the end of the exam -