

NCUK

NCUK INTERNATIONAL YEAR ONE BUSINESS

IDBFN001 Financial Accounting 1

2020-2021

Exam

Mark Scheme

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

Question 1

a) Wexford:

Working Notes

1) Depreciation and disposals

Vehicle Account

	£		£
Bal b/d	90,000	Disposals	20,000
		Bal c/d	<u>70,000</u>
			90,000

Accumulated Depreciation

	£		£
Disposals*	7,200	Bal c/d	50,000
Bal c/d	<u>48,240</u>	P&L**	<u>5,440</u>
	55,440		55,440

* [20% x 20,000] + [20% x 16,000]

** 20% x [70,000 - 42,800]

	£		£
Vehicles	20,000	Acc. Depreciation	7,200
		Cash	6,000
		Loss	<u>6,800</u>
			20,000

- 2) Electricity: £10,000 x 12/20 = £6,000 (£2,000 p/paid)
- 3) Rental: £6,000 (£500 accrued)
- 4) Wages: £33,000 (£2,600 accrued)
- 5) Car expenses: £3,000 x 12/15 = £2,400 (£600 p/paid)
- 6) Increase in receivables allowance: [£34,000 x 2%] - £500 = £180
- 7) Interest owing: £4,800 - £3,200 = £1,600

Wexford: Statement of Profit or Loss y/e 31st December 2020

	£	£
Sales		213,850
Less returns		<u>350</u>
		213,500
Less cost of sales:		
Opening inventory	56,200	
Purchases less returns	101,200	
Carriage in	<u>500</u>	

	157,900	
Less closing inventory	<u>61,200</u>	
		<u>96,700</u>
Gross profit		116,800
Less expenses:		
Vehicle depreciation	5,440	
Vehicle disposal loss	6,800	
Furniture depreciation	20,000	
Wages	33,000	
Car expenses	2,400	
Electricity	6,000	
Rental	6,000	
Discounts allowed	1,400	
Carriage out	1,000	
Irrec. debts	2,000	
Increase in allowance	180	
Interest	<u>4,800</u>	
		<u>89,020</u>
Net profit		<u>27,780</u>

Marks Allocated:

- Gross profit correctly calculated, with returns and carriage in treated appropriately. (1)
- Vehicle depreciation correctly calculated, complexity of reducing balance meriting higher tariff. (2)
- Depreciation of furniture treated correctly. (1)
- Disposal loss treated correctly. (1)
- Full period wages correctly included. (1)
- Car expenses adjusted correctly. (1)
- Electricity c/fwd accrual adjusted to calculate yearly charge. (1)
- 4 months prepaid electricity identified to calculate yearly charge. (1)
- Rental adjusted for accrued charge. (1)
- Receivables allowance adjusted correctly. (1)
- Interest charge for full year correctly included. (1)
- Final net profit is correct, reflecting accuracy and overall adherence to correct principles. (1)

Wexford: Statement of Financial Position as at 31st December 2020

	Cost [£]	Depreciation [£]	NBV [£]
Assets			
<i>Non-current assets</i>			
Furniture	80,000	60,000	20,000
Vehicles	70,000	48,240	<u>21,760</u>
			41,760

<i>Current assets</i>			
Inventory		61,200	
Receivables	34,000		
Less allowance	<u>680</u>	33,220	
Prepaid expenses		2,600	
Bank [15,500 + 6,000]		<u>21,500</u>	
			<u>118,620</u>
			<u>160,380</u>
Capital and Liabilities			
Opening capital			75,500
Profit		27,780	
Less drawings		<u>18,000</u>	<u>9,780</u>
			85,280
<i>Long term liabilities</i>			
8% Loan			60,000
<i>Current liabilities</i>			
Payables		9,400	
Interest owing		1,600	
Drawings due		1,000	
Accrued expenses		<u>3,100</u>	
			<u>15,100</u>
			<u>160,380</u>

Marks Allocated:

- Fixtures balance correctly identified. (1)
- Vehicle balance correctly identified. (2)
- Receivables adjusted correctly. (1)
- The two prepaid expenses included correctly. (1)
- Bank balance adjusted for asset sale. (1)
- Drawings adjusted and included as current liability. (1)
- Interest owing included as current liability. (1)
- Two accrued expenses included correctly. (1)
- Final balances in agreement, reflecting overall accuracy and understanding of principles. (2)
- Both statements laid out in logical and presentable manner, with appropriate terminology used throughout. (1)

[Total marks: 25]

- b) Inventory valuation, applying FIFO:
- i) At 30th September 2021, boards in inventory:
- o 100 boards @ £175 = £17,500
 - o 300 boards @ £190 = £57,000
 - o 200 boards @ £220 = £44,000
 - o Total inventory = £118,500

Marks Allocated:

- Correctly understanding and applying FIFO principles. (2)
- Correct calculation of inventory. (1)

[Total marks: 3]

- ii) For 2020:
- o Closing inventory undervalued by £1m
 - o Cost of sales overstated by £1m
 - o Profit understated by £1m

For 2021:

- o Opening inventory undervalued by £1m
- o Cost of sales understated by £1m
- o Profit overstated by £1m

The net effect of the error is therefore to shift £1m profit forward a year.

Marks Allocated:

- Identifying link between inventory, cost of sales and profit. (1)
- Identifying profit understated in 2020. (1)
- Identifying profit overstated in 2021. (1)

[Total marks: 3]

- iii)
- o Original valuation: £121,600
 - o Line 1: £[500 x 4] - £150 1,850
 - o Line 2: £[100 x 55] - £1,000 - £600 3,900
 - o Adjusted valuation 127,350

Marks Allocated:

- Adjusting valuation for lines 1 and 2 correctly. (2)
- Correctly adding adjusted lines back to the original valuation. (2)

[Total marks: 4]

Section B

Question 2: Section B Option 1

a)

Leitrim: Cash Book Adjustment

	£	£
Cash book balance (31-10-20)		(220)
Less:		
Bank charges	330	
Returned cheque	250	
Misc. stationery	90	
Direct debit: trade association	110	
Transposed entry	18	
B/fwd error	<u>90</u>	
		<u>(888)</u>
		(1,108)
Add:		
Investment income		<u>275</u>
Corrected balance per CB		(833)

Marks Allocated:

- Understanding opening balance is negative (overdrawn) and enter accordingly. (2)
- Correctly adjust for each of the six entries reducing the balance. (6)
- Correctly adjust the entry that increases the balance. (1)
- Correct final balance, reflecting accuracy and (importantly) the non-inclusion of items not relevant. (2)

[Total marks: 11]

b) **Leitrim: Bank reconciliation at 31st October 2020**

Balance per bank statement		(1,408)
Add outstanding lodgements		<u>990</u>
		(418)
Less unrepresented cheques		<u>(415)</u>
Balance per CB		(833)

Marks Allocated:

- Identify the two adjusting entries and apply the adjustment correctly. (2)
- Reconcile the bank and cash book figures by applying only the two relevant adjusting figures. (2) (Note, if correct principles applied then c/fwd errors not penalised further)

[Total marks: 4]

c) Petty cash:

Key points for full answer:

- Petty cash is a small cash balance maintained within the organisation to meet small (petty) daily expenses, e.g. minor travel costs, minor stationary items, office refreshments like tea/coffee etc
- Petty cash expenditure is usually maintained and analysed separately from the main cash book to avoid 'clogging' the main cash book with a mass of minor, fairly trivial expenditure. A petty cash book would be kept by a junior cashier/accounts assistant.
- Petty cash is usually administered through an imprest system:
 - Imprest is the float of cash kept to maintain petty expenses
 - A voucher is raised every time a petty cash expense is authorised, therefore at any time the cash on hand plus vouchers should equal the float/imprest
 - At regular intervals (weekly/monthly) the float is replenished to the total of vouchers on hand, which should always, in principle, be the total float. This approach is useful in guarding against minor carelessness and abuse of organisations' assets.

Marks Allocated:

- Identifying what petty cash in essence is, per point 1 above. (1)
- A basic understanding of petty cash expenditure per point 2 above. (1)
- Up to three marks for a clear explanation of imprest system with some commentary on benefit of the system. (3)

[Total marks: 5]

Question 3: Section B Option 2**a) Shannon & Co**

- i) Shannon: Accounts Receivable Control Account y/e 31st
December 2020

	£		£
Bal b/fwd	33,900	Cash (749,100-205,200)	543,900
Credit sales	627,150	Discount allowed	7,800
		Set-off	190
		Irr. Debts	1,700
		Returns in	6,600
		Bal c/fwd	<u>100,860</u>
	661,050		661,050

Marks Allocated:

- Opening balance correctly entered as debit. (1)
- Identifying correct cash figure. (2)
- 1 mark for each of other correct entries (5 entries). (5)
- 1 mark for correct final balance, reflecting inclusion of only relevant items. (1)

[Total marks: 9]

ii) Shannon: Accounts Payable Control Account y/e 31st December 2020

	£		£
Cash (511,600-22,650)	488,950	Bal b/fwd	26,150
Discount received	6,200	Credit purchases	510,700
Set-off	190		
Returns out	2,150		
Bal c/fwd	<u>39,360</u>		
	536,850		536,850

Marks Allocated:

- Opening balance correctly entered as credit. (1)
- Identifying correct cash figure. (2)
- 1 mark for 3 other entries (excluding set-off). (3)
- 1 mark for correct final balance, reflecting inclusion of only relevant items. (1)

[Total marks: 7]

b)

- Error of commission: an error where the correct amount is entered into the wrong account, usually a personal account e.g. an entry into the wrong customer account.
- Error of principle: an error where the entry breaks a fundamental accounting principle, e.g. disposal (sale) of fixed asset entered into sales account. Fundamentally wrong but will not impact on trial balance.
- Error of original entry: Occurs where the original figure is incorrect e.g. sales figure from invoice is calculated incorrectly – wrong figure transferred to credit of sales and debit of customer. Trial balance still balances.
- Reversal of entries: the appropriate accounts are recorded with the transaction but each entry on the wrong side of the account. Again, will not impact trial balance.

Marks Allocated:

- 1 mark for reasonably clear explanation of each, broadly per above. (4)

[Total Marks: 4]

Question 4: Section B Option 3

- a) Need for regulatory framework:
- Helps provide assurance to shareholders and investors that financial information provided by companies is relevant and faithfully presented and meaningful comparisons can be made between companies.
 - Allows other users, e.g. government bodies, tax authorities, community and environmental bodies, to make use of the company information and be reasonably confident that it is reliable.
 - Can help to prevent fraud and dishonest dealing, though not specifically set up for that purpose

Marks Allocated:

- 2 marks for each reasonably clear and coherent point provided by the student (generally in line with above) to a maximum of six marks. (6)

[Total marks: 6]

- b) Factors influencing regulation:
- Government legislation – UK Companies' Acts
 - Professional judgement by qualified accountants, supported by their chartered bodies.
 - Fundamental accounting concepts evolving from the above
 - Accounting standards, developing in the UK from 1970s and other systems evolving in, for example, USA
 - International standards
 - Generally Accepted Accounting Practice (GAAP)

Marks Allocated:

- 1 mark for each valid point recognised, to a maximum of six. (6)

[Total marks: 6]

- c) Advantages of harmonisation of accounting rules and regulations:
- The following may be relevant:
- Investors may wish to compare the financial results of different companies internationally as well as within one country. Having similar rules for company accounts/reporting must help this.
 - Many of the largest companies operate across international borders and much easier for them if reporting rules do not change between countries. Advantages could include:
 - Easier to comply with rules for overseas stock exchanges
 - Easier to raise capital from overseas capital markets
 - Preparation of overall company final accounts made easier
 - Auditing made easier and hence audit costs reduced
 - Helps governments of less wealthy developing countries to use generally recognised international standards – avoid expense and technical difficulty of generating own rules
 - Helps tax authorities calculate tax liabilities of investors and companies that generate income from overseas
 - Easier to promote regional trade and economic development if all companies operating in the region operate to common accounting standards

Marks Allocated:

- 2 marks available for each advantage identified with accompanying explanation/narrative, up to maximum of eight marks. (Other logical, well-reasoned points may be accepted at centre's discretion). (8)

[Total marks: 8]