

# 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 1

The trial balance of Wexford, a sole proprietor, is presented below:

	Dr. [£]	Cr. [£]
Purchases	101,300	
Sales		213,850
Returns in	350	
Returns out		100
Carriage in	500	
Carriage out	1,000	
Furniture & fittings (cost)	80,000	
Vehicles (cost)	90,000	
Accumulated depreciation (1-1-20):		
Furniture and fittings		40,000
Vehicles		50,000
Inventory (1-1-20)	56,200	
Electricity charges	10,000	
Rent	5,500	
Wages	30,400	
Irrecoverable debts	2,000	
Allowance for receivables		500
Electricity owing (1-1-20)		2,000
Discounts allowed	1,400	
Receivables	34,000	
Payables		9,400
Vehicle running expenses	3,000	
Interest	3,200	
Bank	15,500	
Drawings	17,000	
Bank loan (8%)		60,000
Capital		<u>75,500</u>
	<b><u>451,350</u></b>	<b><u>451,350</u></b>

### Notes:

- 1) Inventory at 31<sup>st</sup> December 2020 valued at £61,200
- 2) Furniture and fittings depreciated at 25% straight line
- 3) Vehicles are depreciated on 20% reducing balance basis, but no depreciation on year of asset disposal
- 4) The electricity charge represents 20 months payment to 1<sup>st</sup> May 2021
- 5) Office rental is £500 per month
- 6) Staff wages for Wexford are £2,750 per month
- 7) Car expenses have been paid with a local garage up to 31<sup>st</sup> March 2021
- 8) Wexford believes that 2% of receivables will end as irrecoverable
- 9) During December Wexford sold a vehicle it had purchased for £20,000 in 2018. The sale price was £6,000. The transaction has not yet been recorded in the accounts.

- 10) Wexford withdraws an average of £1,500 per month for personal use.  
Any under balance on this amount will be withdrawn early in 2021.

**Required:**

- (a) Prepare Wexford's statement of profit or loss for year ending 31<sup>st</sup> December 2020 and a statement of financial position as at that date. [25]
- (b) The following questions relate to inventory valuation:
- (i) A company values its inventory using the first in first out (FIFO) method. At 1<sup>st</sup> October 2020 the company had 1,000 circuit boards in inventory, valued at £175 each. [ 3 ]

During the year to 30<sup>th</sup> September 2021 there were the following transactions:

- 1<sup>st</sup> November 2020 acquired 300 circuit board at £190 each
- 1<sup>st</sup> December 2020 sold 500 boards for £200,000
- 1<sup>st</sup> April 2021 acquired 200 circuit boards at £220 each
- 1<sup>st</sup> July 2021 sold 400 boards for £220,000
- 

**Required:**

Calculate the company's inventory of circuit boards at 30<sup>th</sup> September 2021

- (ii) A company in preparing its financial statements for year ending 31<sup>st</sup> December 2020 understates its inventory valuation by £1m. [ 3 ]

**Required:**

Assuming the error is not corrected, outline clearly the impact of the under valuation on the statement of profit or loss for both 2020 and 2021

- (iii) The closing inventory for a business was recorded as £121,600 but this was before two lines that been excluded: [ 4 ]
- Line 1: 500 items, costing £6.00 each. All were sold after the end of the accounting period for £4.00 per item and additional selling expenses of £150
  - Line 2: 100 items costing £50 each. They had been found to be defective and required £1,000 of rectification work. They were subsequently sold for £55.00 each with additional selling costs of £600

**Required:**

Recalculate the closing inventory for the business after the above adjustments have been made.

## Section B

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

### Question 2: Section B Option 1

The cash book summary for Leitrim Ltd for October 2020 is shown below:

	£		£
Receipts	2,760	Bal b/d	1,010
Bal c/d	<u>220</u>	Payments	<u>1,970</u>
	2,980		2,980

All receipts are banked immediately and payments are by cheque.

Review of the accounts by the financial accountant reveals:

- 1) Cheques drawn for £415 had not been presented to the bank for payment,
- 2) Cheques received totaling £990 had been entered in the cash book and paid into the bank. They were not credited in the bank until 3<sup>rd</sup> November
- 3) Bank charges of £330 appeared in the latest bank statement but have not yet been entered in the cash book
- 4) A cheque received from Clare & Family for £250 had been returned, as dishonoured, from the bank. No adjustment has been made in the cash book.
- 5) A cheque for £45 for miscellaneous stationery purchases has been entered as a receipt in the cash book
- 6) Interest of £275 from an investment account is paid directly into the bank in October and has not yet been recorded in the cash book.
- 7) A direct debit of £110 for a trade subscription has not been entered in the cash book.
- 8) A cheque drawn for £86 to a staff training company has been entered in the cash book as £68
- 9) The balance b/fwd in the cash book should have been £1,100 not £1,010

#### Required:

- (a) Taking into account the relevant factors above, adjust the cash book showing the corrected balance at 31<sup>st</sup> October 2020. **[ 11 ]**
- (b) The bank statement at 31<sup>st</sup> October showed a negative balance of £1,408. Reconcile the corrected cash book balance to this figure. **[ 4 ]**
- (c) Explain what is meant by *petty cash* and how it is usually administered within an organisation. **[ 5 ]**

**Question 3: Section B Option 2**

- (a) Shannon & Co have their financial year ending 31<sup>st</sup> December 2020. In preparation for the production of the final accounts of the year they require the drafting of a receivables and payables control account.

The following is extracted from the books of account:

	<b>£</b>
Purchases - credit	510,700
- cash	22,650
Sales - credit	627,150
- cash	205,200
Total payments to suppliers	511,600
Total receipts from customers	749,100
Discount received (from credit suppliers)	6,200
Discounts allowed (to credit customers)	7,800
Refunds to cash customers	5,950
Balance in sales ledger set off to purchase ledger	190
Irrecoverable debts	1,700
Increase in specific allowance for receivables	600
Credit notes issued to credit customers	6,600
Credit notes received from credit suppliers	2,150

Previous balances at 1<sup>st</sup> January 2020:

- Accounts receivable: £33,900
- Accounts payable: £26,150

**Required:**

- (i) Prepare an accounts receivable control account. [ 9 ]
- (ii) Prepare an accounts payable control account. [ 7 ]
- (b) The following errors are errors that **do not affect** the balancing of the trial balance: [ 4 ]
- Error of commission
  - Error of principle
  - Error of original error
  - Reversal of entries

**Required:**

Explain briefly the nature (i.e. what they refer to) of each of these errors.

**Question 4: Section B Option 3**

- (a) Outline why there is a need for a *regulatory framework* in financial accounting. [ 6 ]
- (b) Identify the key factors that have influenced a system of regulation in financial accounting. [ 6 ]
- (c) Describe the key advantages of having an international or global system of accountancy regulation. [ 8 ]

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