

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 can either be typed or handwritten on paper. Once complete, any 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

The trial balance of Down, a sole proprietor, for year ended 31st December 2020 is presented below:

	Dr	Cr
	£	£
Sales		610,900
Purchases	315,000	
Returns in	900	
Carriage in	1,890	
Carriage out	1,700	
Fixtures and fittings (cost)	100,000	
Vehicles (cost)	80,000	
Accumulated depreciation:		
Fixtures and fittings [1-1-20]		50,000
Vehicles [1-1-20]		32,000
Wages and salaries	92,500	
Discount allowed	2,400	
Rent	18,000	3,000
Electricity	16,000	
Vehicle maintenance and fuel	17,000	
Interest on loan	4,500	
Accounts receivable	51,000	
Accounts payable		31,800
Irrecoverable debt	2,200	
Specific allowance for receivables		2,500
Inventory [1-1-20]	51,900	
Drawings	30,600	
10% bank loan [2030]		90,000
Bank	61,000	
Capital [1-1-20]		26,390
	<u>846,590</u>	<u>846,590</u>

Relevant notes:

- 1) Inventory at 31st December 2018 was originally valued at £60,600. It was subsequently realised that £12,000 of the inventory had deteriorated and could only be sold off at auction for £2,000. Auction fees are 10% of sale proceeds.
- 2) Rent payment covers 18 months to 1st April 2021.
- 3) The final electricity meter reading has been made and the annual bill will be £19,000.

- 4) The wages and salary bill for each month is £8,000.
- 5) Down has a contract with a local garage to pay £1,500 per month to cover all fuel costs plus repairs and maintenance to business vehicles. Any arrears must be settled as soon after 1st January 2021 as possible.
- 6) Down is certain that the allowance for receivables is unnecessarily severe and should be reduced to £1,000.
- 7) In December 2020 Down sold a van, purchased in 2017 for £15,000, for £4,800. No entries have yet been made to record this transaction. (Down charges a full year's depreciation in year of purchase and none in year of disposal)
- 8) Depreciation is charged straight line on non-current assets:
 - 25% on fixtures and fittings
 - 20% on vehicles

Required:

- (a) Prepare a statement of profit or loss for Down for y/e 31st December 2020 [27] and a statement of financial position as at that date.

- (b) A business colleague of Down has told him that he could further improve his profit by transferring part or all of the wages charge to the statement of financial position (i.e. treat as capital expenditure).

Briefly explain the rules to Down to clarify his understanding of the issue. [5]

- (c) Down has been considering taking on a partner for the business.

Briefly explain to Down two key **disadvantages** of a partnership structure. [3]

Section B

Answer 2 questions only. This section carries 40 marks.

Question B1

(a) The following short questions all relate to an understanding of basic accounting principles:

(i) Business A has:

- Receivables of £18,000 at 1-1-20
- Receivables of £14,000 at 31-12-20
- Total receipts during the year of £98,000, including £8,000 from cash sales.

Required:

Calculate A's credit sales for the year.

[2]

(ii) Business B's books present the following information for April 2021:

- | | |
|----------------------|---------|
| • Sales day book | £60,000 |
| • Purchases day book | £25,000 |
| • Returns -in book | £6,000 |
| • Returns-out book | £4,000 |
| • Opening inventory | £7,000 |
| • Closing inventory | £4,000 |

Required:

Calculate B's gross profit.

[3]

(iii) Business C purchased a vehicle on 1st September 2020 for £40,000. It is to be depreciated at 25%pa straight line, with an estimated disposal value of £4,000 at the end of four years. Depreciated to be calculated on a month of ownership basis.

The £40,000 has been entered correctly into the cash account but has been charged as an expense to vehicle maintenance.

Required:

Identify the extent of the error in C's year-end Statement of Profit or Loss account to year ended 31st December 2020. **[4]**

(iv) The electricity account for D for y/e 31st July 2021 appears as follows:

	£
• Opening accrual at 1 st August 2020	500
Subsequent payments during the year:	
• 1 st Sept 2020 for 3 months to 31 st Aug. 2020	1,000
• 1 st Dec 2020 for 3 months to 30 th Nov 2020	1,250
• 1 st March 2021 for 3 months to 28 th Feb 2021	1,300
• 31 st July 2021 for 6 months to 31 st August 2021	1,200

Required:

Complete D's electricity account for y/e 31st July 2021, clearly [5]
indicating the charge to the Statement of Profit or Loss account.
(charge assumed to accrue evenly)

(b) Explain the link between the **accruals concept** and the need to [6]
depreciate non-current assets.

Question B2

Kildare Ltd completes their accounts to 31st December 2021, but the accounts assistant's trial balance requires a credit suspense account entry of £1,500 to make it balance.

The accountant uncovers the following errors:

- 1) The sales day book has been totaled incorrectly, undercast by £2,090. The entries to the personal accounts are correct.
- 2) Cash discount of £410 was claimed from supplier J Offaly, but the paid made was well past the required time limit
- 3) A new, recently purchased vehicle, costing £3,500 had been recorded in the Vehicle Expenses account
- 4) Purchases of component parts for £480 had been recorded in the purchases account as £840
- 5) Miscellaneous office stationery inventory valued at £290 had not been included in year-end accounting figures.
- 6) A sales credit note of £475 has been filed with and credited as purchase returns documentation. Entries are correct in the personal accounts.

Required:

- (a) Prepare journal entries to correct the above errors (narratives not needed). **[7]**
- (b) Clear the suspense account to show that all errors have been correctly dealt with. **[4]**
- (c) Kildare had reported draft gross profit of £45,700 and draft net profit of £31,000.
- Calculate the revised gross and net profits after correcting the errors. **[9]**

Question B3

(a) Explain clearly the benefits to a business of maintaining a set of control accounts. [10]

(b) A Ltd has made £10,000 worth of purchases in the year to 31st December 2020 and has recorded £1,500 of inventory at the year end.

Outline the double entry in the ledger to record these transactions at the year end of 2020 and the opening of 2021. (This can be done either using 'T' accounts or through journal entries). [6]

(c) Kerry opened a gift shop on 1st January 2020 with inventory valued at £7,000 and £4,000 in the bank. The premises are rented. All sales are for cash, but Kerry is inexperienced and keeps no business records.

At 31st December 2020 the business has inventory valued at £9,000 and there is £11,000 in the bank, but Kerry owes suppliers £4,000.

During the year Kerry's uncle gave her £3,000 which she paid into the bank, less £1,000 she used for a holiday.

Average weekly drawings from the business are £200.

Required:

Applying the accounting equation determine Kerry's profit for 2020. [4]

- This is the end of the exam -