

NCUK

NCUK INTERNATIONAL YEAR ONE BUSINESS

IDBFN001 Financial Accounting 1

2018-2019

Examination Session
Semester 1

Time Allowed
2 hour 40 minutes
(including 10 minutes reading time)

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**

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Section A

Answer ALL questions. This section carries 35 marks.

Question A1

The trial balance of Winston, a trader, for year ended 31st December 2018 is shown below:

	Dr	Cr
	£	£
Sales		415,700
Purchases	210,600	
Returns-in	800	
Carriage-in	1,750	
Carriage-out	2,400	
8% bank loan (2025)		80,000
Wages & salaries	81,300	
Discount allowed	2,600	
Rent	15,000	
Electricity	18,000	
Interest on loan	3,200	
Accounts receivable	49,000	
Accounts payable		26,650
Irrecoverable debt	1,800	
Specific allowance for receivables		2,000
Fixtures and fittings (cost)	50,000	
Vehicles (cost)	100,000	
Provision for depreciation: fixtures (1-1-18)		30,000
Provision for depreciation: vehicles (1-1-18)		50,000
Inventory (1-1-18)	47,500	
Drawings	24,900	
Bank	30,750	
Capital (1-1-18)		35,250
	639,600	639,600

Additional notes:

1. Inventory at 31st December 2018 was valued at £55,900.
2. Rent accrues evenly on a quarterly basis and has been paid up to 31st March 2019.
3. The electricity account for November and December 2018 has not been paid – the meter reading suggests the bill will be £4,000.
4. Winston is concerned that the allowance for receivables has underestimated the likely irrecoverable debt and decides to increase the allowance to £3,000.
5. A vehicle purchased for £40,000 in 2015 was sold for £7,000 in November 2018 and no entries have yet been entered in the books to reflect this transaction. (Full year depreciation charged in year of acquisition and none in year of disposal).

6. Depreciation is charged at 20% straight line on fixtures and 25% straight line on vehicles.
7. Wages and salaries are £7,000 per calendar month (accrue evenly each month).

Required:

- (a) Prepare a statement of profit or loss for Winston for year ended 31st December 2018 and a statement of financial position as at that date. **[23]**
- (b) A partnership is a business structures that might help Winston expand the business. Identify two advantages and two disadvantages of this structure. **[2]**
- (c) Explain clearly to Winston what a *limited liability company* is and outline the advantages and disadvantages of such a structure. **[10]**

Section B

Answer 2 questions only. This section carries 40 marks.

Question B1

- (a)** Denmark & Co operates a receivables control account to assist its overall credit control system. The balances on the receivables ledger accounts at 31st December 2018 amounted to £17,390 whereas the balance on the receivables ledger control account is £16,320.

Follow up review by Denmark's financial accountant reveals the following:

- i. Sales for week ended 30th November, amounting to £1,150 had not been entered into the control account.
- ii. Cash received of £760 had been entered into the personal account as £670.
- iii. A customer's account balance of £400 had not been included in the list of balances from the receivables ledger.
- iv. A contra entry of £210 with the payables ledger had not been entered in the control account.
- v. A personal account balance had been under added by £90.
- vi. Cash received of £180 had been debited to the relevant personal account in the receivables ledger.
- vii. An irrecoverable debt of £320 had not been entered in the control account.
- viii. Cash received of £150 had been credited to the personal account as £15.
- ix. Returns inwards amounting to £145 had not been included in the control account.
- x. A cheque for £500 received from a customer had been dishonoured by the bank but no adjustments had been made to the control account.

Required:

- (i)** Prepare a corrected receivables control account, bringing down the amended balance at 1st January 2019. **[8]**
 - (ii)** Prepare a corrected personal account balances statement in the receivables ledger that reconciles with the control account balance. **[8]**
- (b)** Outline briefly the distinction between the accounting treatment of capital and revenue expenditure. **[4]**

Question B2

- (a) Dutch Traders recorded the following inventory transactions during the month of October 2018:

	Quantity [units]	Unit Cost [£]	Total Cost [£]
Opening balance, 1 st Oct.	400	4.00	1,600
Receipts, 3 rd Oct.	600	5.00	3,000
Issues, 9 th Oct.	(500)		
Receipts, 10 th Oct	400	5.50	2,200
Receipts, 15 th Oct.	400	5.75	2,300
Issues, 23 rd Oct.	(600)		
Closing inventory 31 st Oct.	700		
			9,100

Required:

- (i) Calculate the cost of issues and closing inventory valuation using the FIFO (first in first out) method of inventory valuation. [4]
- (ii) Calculate the cost of issues and closing inventory valuation using the AVCO (average cost) method of inventory valuation (calculations to nearest £). [8]
- (iii) Using the figures above as an example explain in principle which of the inventory valuation methods would result in the higher gross profit. [3]
- (b) Explain the clearly the double entry ledger entries required to record opening and closing inventory values and explain their impact on the financial statements. [5]

Question B3

(a) The following questions relate to an understanding of basic principles of accounting.

(i) The following items would be included in a statement of financial position:

Assets; profit; liabilities; drawings; opening capital.

Required:

Draft the accounting equation that correctly includes all of the above. [1]

(ii) A business earns £80,000 profit in 2018. The owner injected fresh capital of £12,000 during the year and withdrew goods for private use amounting to £6,500. Net assets at the start of the year were £125,000.

Required:

Calculate the closing net assets. [2]

(iii) A sole trader purchases goods on credit.

Required:

Identify which elements of the accounting equation will change due to this transaction. [1]

(iv) Financial transactions of businesses are recorded in the ledgers.

Required:

Identify three types of account that would normally have a credit balance. [1]

- (v) Jones has extracted the following list of balances from the ledger at 31st December 2018:

	£
Revenue	195,750
Opening inventory	35,650
Purchases	141,210
Expenses	37,100
Non-current assets (carrying amount)	89,600
Trade receivables	31,220
Trade payables	24,300
Bank overdraft	27,150
Capital	87,580

Required:

Redraft the above list of balances into a trial balance. [3]

- (b) The following questions relate to the *Conceptual Framework* and the qualitative characteristics of financial information.
- (i) Identify and explain the one **underlying assumption** that the conceptual framework sets out for financial statements. [3]
- (ii) *Relevance and faithful representation* are the two fundamental qualitative characteristics of financial information as set out in the conceptual framework. Explain each of these characteristics. [6]
- (iii) Identify and explain any **one** enhancing characteristic of financial information. [3]

- This is the end of the exam -