

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**

Section A

Answer ALL questions. This section carries 35 marks.

Question A1

The trial balance of Melrose, a sole trader, for year ended 31st December 2019 is provided below:

	Dr [£]	Cr [£]
Plant and equipment [cost]	80,000	
Vehicles [cost]	65,000	
Inventory [1-1-19]	51,750	
Provision for depreciation [1-1-19]:		
Equipment		50,000
Vehicles		40,000
Purchases	105,600	
Sales		191,700
Returns in	300	
Carriage in	800	
Electricity costs	7,500	
Rent	16,000	
Wages	30,500	
Irrecoverable debts	2,000	
Specific allowance for receivables		1,700
Electricity owing [1-1-19]		500
Discounts allowed	1,900	
Receivables	39,600	
Payables		9,700
Bank	26,200	
Drawings	17,000	
Motor expenses	4,000	
Loan interest	4,000	
Bank loan [10%]		80,000
Capital		78,550
	452,150	452,150

Additional notes:

1. Inventory at 31st December 2019 was valued at £77,600
2. Plant and equipment is to be depreciated at 10% straight line
3. Vehicles are to be depreciated at 20% reducing balance [no depreciation in year of disposal]
4. The electricity charge is for 15 months to 1st March 2020
5. Monthly rental on Melrose's premises is £1,500
6. Melrose pays its garage account quarterly by £1,000 direct debit but an invoice, of £1,400, for additional work that was extra to the standard maintenance agreement was received on 24th December 2019. This invoice has not been actioned.
7. Melrose now considers that the allowance for receivables should be £2,000

8. During the year Melrose sold a vehicle it had purchased in 2017 for £15,000. The vehicle was sold for £9,000. The transaction has not yet been recorded in the books of account.

Required:

- (a) Prepare Melrose's statement of profit or loss for year ended 31-12-19 and a statement of financial position as at that date. **[26]**
- (b) A&B Co. use the services of Modern Design Partners a firm of architects and planning consultants.

The following three transactions relate to work done by Modern Design and in each case, they were paid from A&B's business bank account.

- ❖ Transaction 1: Modern Design advise A&B on best practice for managing and recycling waste. Modern Design charges a fee of £75,000 for its advice.
- ❖ Transaction 2: Modern Design designs an extension to the home of John Buchan, a part owner of A&B. The fee was £110,000.
- ❖ Transaction 3: A&B engage Modern Design to design and project plan a major extension to its production plant to meet increased export demand. The fee for this is £500,000.

Outline briefly how each transaction should be recorded in the books of A&B Co. **[3]**

- (c) Other than the owners or shareholders (in a company) identify **three** groups who might be interested in receiving the financial statements of a business and comment briefly on the use they might make of this information. **[6]**

Section B

Answer 2 questions only. This section carries 40 marks.

Question B1

Dryburgh Ltd is a small manufacturing company producing specialist parts for the sports car sector. On 1st January 2016 it purchased 2 items of machinery to produce a given component P. Each machine cost £60,000 and had an estimated useful life of 4 years with no residual value. Dryburgh depreciates the machines straight line based on each full month of usage.

Technology in this sector changes rapidly and on 1st July 2018 Dryburgh sells one machine (machine 1) on credit for £8,000. Later in the year Dryburgh decides to sell the second machine (with the intention of reinvesting in new technology) and does so on 1st November for £1,000 cash.

Required:

- (a) Complete the following ledger accounts for year ended 31st December 2018:
- | | |
|--|-------|
| (i) Machinery account | [2] |
| (ii) Depreciation of machinery account | [6] |
| (iii) Disposal of machinery account | [7] |
- (b) Identify the total charge to profit and loss for 2018, relating to the above entries. [2]
- (c) In general terms what advice might be given to Dryburgh in relation to future depreciation policy on the new technology it will invest in. [3]

Question B2

On 31st December 2018 Kelso's cash book showed a negative (i.e. overdraft) balance of £600 while the latest bank statement for December showed an overdraft of £90.

Further investigation revealed:

- 1) Cheques drawn, amounting to £835 had been included in the cash book but had not yet been presented.
- 2) Cheques received, amounting to £700 had also been entered in the cash book but had yet to be shown as credit by the bank.
- 3) The payments side of the cash book had been undercast by £80.
- 4) Bank charges of £105 had not been included in the cash book.
- 5) Interest received of £500 paid directly into the bank account, had not been recorded in the cash book.
- 6) A cheque for £60 had been included in the business cash book but this was a personal cheque drawn on a different, personal bank account.
- 7) A cheque issued to A Fraser for £90 was replaced when it became out of date. It was re-entered into the cash book but no other adjustment was made. Both cheques were included in the list on unpresented cheques identified above.

Required:

- (a) Adjust Kelso's books by:
- (i) Correcting the cash book balance as at 31st December 2018. [9]
 - (ii) Preparing a statement reconciling the corrected cash book balance to the bank statement as at 31st December 2018. [6]
- (b) Company Z recorded profits of £200,000 but the auditor has discovered that a £40,000 maintenance charge for its vehicle fleet had been treated as capital expenditure and included in the depreciation schedule for Z's vehicles.

Z depreciated vehicles at 25% straight line.

Required:

Calculate Z's amended profit for the period. [2]

- (c) At 31st December 2017 Y had net assets of £235,000
At 31st December 2018 Y had net assets of £290,000

During 2018 Y withdrew £50,000 from the business in personal drawings and injected fresh capital of £20,000 into the business.

Required:

Calculate Y's profit for 2018. [3]

Question B3

- (a) Identify and explain **five** types of error that would not affect the balancing of a trial balance. [10]
- (b) PQ has prepared his draft accounts for 2018. He subsequently realises that he has not adjusted his financial statements for an accrual of £950 and a prepayment of £1,600.

Required:

Identify the impact on PQ's profit and net assets after including the two adjustments. [1]

- (c) Business X rents out office space to a wide variety of professional and service sector businesses.

The total amount received during 2018 was £1,410,000.

There were amounts in arrears and paid in advance at both 1st January 2018 and 1st January 2019.

	1 st Jan 2018	1 st Jan 2019
	£	£
Rent received in advance	86,500	90,800
Rent in arrears	61,300	52,220

Required:

Calculate the rental income that should be included in X's P&L statement for 2018. [3]

- (d) What is *Conceptual Framework* defining with each of the following:
- (i) A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. [2]
- (ii) The residual interest in the assets of an entity after deducting all its liabilities. [2]
- (iii) Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or increase in liabilities that result in decreases in equity, other than those relating to distributions to equity participants [2]

- This is the end of the exam -

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