

NCUK

NCUK INTERNATIONAL YEAR ONE BUSINESS

IDBFN001 Financial Accounting 1

2018-2019

Exam

Mark Scheme

Notice to Markers

This mark scheme should be used in conjunction with the NCUK Centre Marking and Recording results policy, available from the secure area of the NCUK website (<http://www.ncuk.ac.uk>). Contact your Principal/Academic Manager if you do not have login details.

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) Melrose final accounts

Working Notes:

- 1) Depreciation and disposal of vehicles:

Vehicle Account

	£		£
Bal b/d	65,000	Disposal	15,000
		Bal c/d	<u>50,000</u>
	65,000		65,000

Provision for Depreciation

	£		£
Disposal £[3,000 + 2,400]	5,400	Bal b/d	40,000
Bal c/d	<u>37,680</u>	P&L	<u>3,080*</u>
	43,080		43,080

*20% x £[50,000 - 34,600]

Disposal

	£		£
Vehicles	15,000	Depreciation	5,400
		Cash	9,000
		Loss on disposal	<u>600</u>
	15,000		15,000

- 2) Electricity:

- o £7,500/15 = £500 per month = £6,000 p.a.
- o £1,000 p/paid

Note: The student might have reversed the opening accrual immediately leaving a net charge of £7,000 over 15 months, i.e. prepayment of £1,400 – also acceptable.

Melrose: Statement of Profit or Loss Year Ending 31-12-19

	£		£
Sales			191,700
Less returns			<u>300</u>
			191,400
Cost of sales:			
Opening inventory	51,750		
Purchases	105,600		
Carriage in	<u>800</u>		
		158,150	
Closing inventory		<u>77,600</u>	
			<u>80,550</u>

Gross Profit			110,850
Less expenses:			
Depreciation: equipment		8,000	
Depreciation: vehicles		3,080	
Loss on vehicle disposal		600	
Electricity		6,000	
Rent		18,000	
Wages		30,500	
Irrecoverable debts		2,000	
Increase in specific allowance		300	
Discounts allowed		1,900	
Motor expenses		5,400	
Loan interest		<u>8,000</u>	
			<u>83,780</u>
Net Profit			<u>27,070</u>

Melrose: Statement of Financial Position as at 31-12-19

	Cost [£]	Depreciation [£]	NBV [£]
Non-current Assets			
Plant and equipment	80,000	58,000	22,000
Vehicles	50,000	37,680	<u>12,320</u>
			34,320
Current Assets			
Inventory		77,600	
Receivables	39,600		
Less allowance	<u>2,000</u>	37,600	
Pre-paid electricity (2 months)		1,000	
Bank £[26,200 + 9,000]		<u>35,200</u>	<u>151,400</u>
			<u>185,720</u>
Capital and Liabilities			
Capital [1-1-19]			78,550
Profit		27,070	
Less drawings		<u>17,000</u>	<u>10,070</u>
			88,620
Non-current Liabilities			
10% Loan			80,000
Current liabilities			
Trade payables		9,700	
Interest owing		4,000	
Accrued expenses (rent/motor)		<u>3,400</u>	<u>17,100</u>
			<u>185,720</u>

Allocation of marks:**Statement of P&L**

- Gross profit correctly calculated. **(1)**
- Correct treatment of electricity expense:
 - Identifying 2 months prepayment. **(1)**
 - Clearing c/fwd accrual. **(1)**
- Correctly identifying rent accrual. **(1)**
- Correctly including vehicle expense invoice. **(1)**
- Calculation of increase in receivables allowance. **(1)**
- Inclusion of full interest charge. **(1)**
- Depreciation on fixtures calculated correctly. **(1)**
- Depreciation of vehicles correctly calculated. **(2)** (high tariff reflects relative complexity of reducing balance approach)
- Loss on disposal correctly calculated. **(2)**
- Correct net profit, reflecting both accuracy and adherence to correct principles throughout. **(1)**

Position Statement

- Identify correct fixtures balance. **(1)**
- Identify correct vehicles balance. **(2)**
- Correct treatment of prepaid expense. **(1)**
- Correct treatment of receivables. **(1)**
- Correct adjustment to bank. **(1)**
- 1 mark for each of the accrued expenses, correctly identified. **(2)**
- 1 mark for correctly identifying interest owing. **(1)**
- Final balances in agreement, reflecting both arithmetic accuracy and full adherence to correct principle throughout. (Note: one c/fwd error, either arithmetic or of principle will still allow the student to gain 1 mark). **(2)**
- Use of IAS1 structure (although as sole trader not, technically required) and correct terminology in both statements.
 - Use of terminology across both statements fully in line with IAS 1. **(1)**
 - Lay out of position statement is clear and in line with generally accepted structures. **(1)**

[26 marks]

b)

- Transaction 1: This is a revenue expense of the business and should be charged to A&B's P&L account. **(1)**
- Transaction 2: This is a personal expense of John Buchan and should be recorded as a drawing and deducted from the profit balance in the P&L account. **(1)**
- Transaction 3: This is part of a building extension which is a capital expense, and any consultancy fees linked to that extension is also 'capital'. The fee will be included as a non-current asset balance and depreciated in line with A&B's depreciation policy. **(1)**

[3 marks]

c) Users might include:

- Senior managers of a company who need to maintain a day to day control of the business finances on behalf of the shareholders. They are obviously interested in profit levels; costs; cash balances etc.
- Trade contacts – suppliers to the business will be especially interested in cash flow and whether the business will be able to honour credit terms provided. Otherwise suppliers might insist on cash terms only.
- Providers of long term finance like banks – also interested in the solvency of the business e.g. will the business be able to meet interest payments as they become due. Banks though will take a longer-term view than trade suppliers and would be interested in/concerned about the overall long-term indebtedness of the business.
- Financial advisors/analysts – for companies quoted on a stock exchange, advisors would be interested in using the accounts to identify long-term trends in profitability and thereby give advice to clients who might be considering investing in the business.
- Others might include the work force and trade union representatives; income tax authorities; wider community groups representing different interests.

Marks allocated:

- 1 mark for identifying a relevant user and 1 additional mark for brief commentary on the nature of that use. Three users required.

[6 marks]

Section B

Question B1

a) Working notes:

- o Annual depreciation charge per machine = £60,000/4 = £15,000
- o Monthly charge = £1,250
- o Machine 1 total depreciation @2 years, 6 months =£37,500
- o Machine 2 total depreciation @2 years, 10 months = £42,500

i)

Machinery Account

	£		£
Jan1 2018 Bal b/d	120,000	July 1 Disposal (1)	60,000
		Nov. 1 Disposal (2)	<u>60,000</u>
	120,000		120,000

Marks allocated:

- 1 mark for each credit entry, dated and cross referenced to disposals. **(2)**

[2 marks]

ii)

Machinery: Depreciation Account

	£		£
July 1 Disposal (1)	37,500	Jan1 Bal b/d	60,000
Nov 1 Disposal (2)	<u>42,500</u>	Dec 31 P&L	<u>20,000</u>
	80,000		80,000

Marks allocated:

- Correctly identifying the credit balance b/d. **(1)**
- 2 marks each for the credit entries, dated and cross referenced (1 mark for calculation). **(4)**
- Identifying closing balance to P&L (note this can be calculated separately so is not merely a 'fill-in' balance). **(1)**

[6 marks]

iii)

Machinery: Disposals Account

	£		£
July 1 Machinery (1)	60,000	July 1 Receivables	8,000
Nov. 1 Machinery (2)	60,000	July 1 Depreciation	37,500
		Nov 1 Cash	1,000
		Nov 1 Depreciation	42,500
		Dec 31 P&L [loss on disposals]	<u>31,000</u>
	120,000		120,000

Marks allocated:

- 1 mark for each correct entry (debit and credit) including final transfer to P&L (note, credit may be given where c/fwd error means the actual figure is not calculated at £31,000).

[7 marks]

b) The depreciation charge for 2018 is:

- The yearly charge of £20,000 (6 months of machine 1 + 10 months of machine 2), plus **(1)**
- The loss on disposal of £31,000 **(1)**
- Total charge of **£51,000**

[2 marks]

c) This gives the more thoughtful student the opportunity to think about depreciation charge in a logical manner.

The following points might be included in a reasonable response:

- Clearly existing depreciation policy is inappropriate – it was supposed to provide an equal allocation of cost over the useful life of the asset but the P&L charges were:
 - 2016: £30,000
 - 2017: £30,000
 - 2018: £51,000

This represents a flaw in basic financial reporting, is not in accordance with the matching principle.
- The advice, given the likely obsolescence in the technology would probably be to depreciate prudently and allocate costs over three or perhaps even two years.

Marks allocated:

- Student makes coherent reference to existing policy and allocation of costs. **(1)**
- Student comments on issue of early obsolescence. **(1)**
- Student makes reasoned comment on future policy – probably suggesting shorter period for depreciation. **(1)**

[3 marks]

Question B2

a)

i) Cash Book Adjustments:

	Dr [£]	Cr [£]
Bank charges not entered (4)		105 (1)
Payments side under added (3)		80 (1)
Interest not entered (5)	500 (1)	
Personal cheque entered into cash book (6)	60 (1)	
Out dated Fraser cheque (7)	90 (2)	
	650	185

	£	£
Cash book balance at 31 st December 2018		(600)
Adjustments:		
Debit entries [adding back]	650	
Credit entries	(185)	465
Corrected balance at 31 st December		(135)

Marks allocated:

- Adjustments correctly made per above. (6)
- Determining amended cash book balance using adjustments correctly. (2)
- Additional mark for identifying correct cash book balance, reflecting accuracy and understanding of principle. (1)

[9 marks]ii) **Bank Reconciliation at 31st December 2018**

	£	£
Balance per bank statement		(90)
Add outstanding lodgements		700 (1)
		610
Less unpresented cheques	835 (1)	
Less cancelled Fraser cheque	(90) (2)	745
Balance per corrected cash book		(135)

Marks allocated:

- Adjustments per above. (4)
- Correct final reconciliation of bank to cash book, reflecting accuracy and understanding of principle. (2)

[6 marks]

b)

	£
Reported profit for year	200,000
Add back incorrect depreciation charge [$\text{£}40,000 @ 25\%$]	10,000
Less maintenance (revenue) expenditure	(40,000)
Amended profit	230,000

Marks allocated:

- 1 mark for each correct adjustment.

[2 marks]

c)

- Net assets increased by £55,000
- Drawings of £50,000 made so net assets must have increased by £105,000, net of drawings.
- New capital injection of £20,000 so $\text{£}[105,000 - 20,000]$ £85,000 of increase in net assets due to operational activities.
- Profit for year must be £85,000

Marks allocated:

- Student indicates that he/she understands the link between net asset growth and profit. **(1)**
- Student follows the four steps per above to accurately calculate year's profit. **(2)**
(1 mark may be allocated if principle followed but inaccurate calculation)

[3 marks]**Question B3**

a)

The student identifies any five types of error:

- Error of omission – transaction is completely omitted from the books of account; e.g. sales of £100 to J Smith left out of sales account (credit) and J Smith account (debit).
- Error of commission – double entry is carried out but one part entered into the wrong account; e.g. per above debit entered into the J Smythe account instead of J Smith account.
- Error of principle – again double entry completed but here an item is entered into the wrong class of account; e.g. £500 paid for motor expenses and debit entered into vehicle (asset) account rather than an expenses account.

- Compensating error – two errors made and by chance each cancel the other out, leaving the trial balance in balance.
- Error of original entry – the figure taken from the books of original entry is incorrect but the double is then correctly applied with the wrong figure; e.g. a sales invoice for £200 is posted as £100 – so £100 credited to sales and £100 debited to receivables
- Complete reversal of entries – correct accounts and correct amounts are entered but on the wrong side of each account; e.g. payment of £150 to A Jones resulted in debit to cash book and credit to Jones (rather than the reverse) – trial balance will still balance
- Transpositional errors – a figure of £189 is entered in the accounts as £198. This would, of course, require to be entered as both a debit and credit for the trial balance to remain in balance.

Marks allocated:

- 1 mark for identify five valid errors and a further 1 mark for brief explanation/commentary on each.

[10 marks]

b) Profit and net assets will be increased by £650 after the adjustments made. **[1 mark]**

c)

Rent Receivable Account

	£		£
Bal b/d	61,300	Bal b/d	86,500
P&L	1,396,620	Cash received	1,410,000
Bal c/d	<u>90,800</u>	Bal c/d	<u>52,220</u>
	1,548,720		1,548,720

Marks allocated:

- Correctly entering opening balances as debit/credit as appropriate. **(1)**
- Entering cash figure as credit to account. **(1)**
- Identifying P&L figure as balancing figure. **(1)**

[3 marks]

d)

- i) Asset. **(2)**
- ii) Equity (capital). **(2)**
- iii) Expense. **(2)**

[6 marks]