

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 for Yeats, a long-established trader, for year ended 31st December 2018 is shown below:

	Dr	Cr
	£	£
Premises	200,000	
Fixtures and fittings	60,000	
Vehicles	35,000	
Provision for depreciation [1-1-18]:		
Premises		24,000
Fixtures and fittings		18,000
Vehicles		15,000
Inventory [1-1-18]	44,750	
Purchases	91,300	
Sales		180,500
Purchase returns		750
Sales returns	1,500	
Carriage-in	800	
Wages	26,400	
Electricity owing [1-1-18]		700
Electricity	4,100	
Vehicles expenses	2,600	
Marketing expenses	6,200	
Irrecoverable debts	1,100	
Allowance for receivable		400
Recovered debts		150
Discounts allowed	1,950	
Receivables	24,100	
Payables		10,650
Bank		18,000
Drawings	30,350	
Agent's commission	2,000	
Loan [12%]		30,000
Interest on loan	1,800	
Capital [1-1-18]		235,800
	533,950	533,950

Additional information:

- 1) Inventory at 31st December 2018 was valued at £61,600
- 2) Premises are being written off over a 50-year period
- 3) Furniture and fittings are depreciated at 10% straight line

- 4) Vehicles are depreciated at 20% reducing balance (no depreciation in year of disposal)
- 5) Marketing is handled for Yeats by Connemara Advertising for a standard fee of £620 per month (over 12 months)
- 6) Wages have been paid up to 30th Nov 2018. Wages are identical each month.
- 7) Yeats has unpaid invoices on file at the year-end:
 - Electricity company: £450
 - Local garage: £300
- 8) Yeats made £50,000 of sales through a regional agent, paying the agent 5% on sales. There were no sales returns on agent sales.
- 9) Yeats believes the allowance on the receivable is insufficiently cautious and should be increased by £250
- 10) During the year Yeats sold a van, purchased in 2016 for £10,000, for £4,000. No record of the transaction has been included in Yeats' financial accounts.

Required:

- (a) Prepare Yeats' statement of profit or loss for year ended 31st December 2018 and a statement of financial position as at that date. **[29]**
- (b) Outline briefly, the value of mandatory accounting standards in the regulation of financial reporting. **[6]**

Section B

Answer 2 questions only. This section carries 40 marks.

Question B1

The trial balance of Swift & Sons as at 31st December 2018 was balanced only through the inclusion of a debit suspense account balance of £4,150.

Further investigation revealed the following:

- 1) Discounts received of £360 were posted to the debit of the discounts allowed account.
- 2) Wages paid in December 2018 amounting to £4,240 had not been posted from the cash book.
- 3) A remittance of £935 received from J Galway had been posted to the credit of Wexford & Co.
- 4) In November 2018 Swift purchased £1,800 of computer stationery. Two-thirds of this stationery is in inventory at 31st December 2018 but no adjustments to the accounts have been made to take account of this.
- 5) A payment of £810 to Mayo & Partners was posted to their personal account as £180.
- 6) A remittance of £2,200 from P Cork, a credit customer, has been credited to sales.

Swift recorded a draft profit for the year of £44,700. (Note, Swift does not maintain either a sales ledger or purchase ledger control account.)

Required:

- (a) Show the journal entries required to correct the various errors identified [7] above (no narratives required).
- (b) Clear off the suspense account balance in line with the relevant journal entries. [7]
- (c) Amend the draft profit to take account of the errors highlighted above. [6]

Question B2

(a) Tralee & Co's year-end inventory count at 31st December 2018 totaled £71,000. However, a follow-up audit revealed the following errors and omissions.

- 1) Some goods were damaged and unsaleable in current condition. They could be repaired at a cost of £135 and sold as spare parts to various trade suppliers for £300. The original cost on the inventory was £525.
- 2) One inventory sheet was over-added by £340 and another under-added by £120.
- 3) Some goods had deteriorated through external storage and would cost £250 to bring them back to good condition. Their cost price per the inventory count was £350 and expected sale price is £500.
- 4) Tralee received goods costing £2,600 during the week ended 31st December 2018 but as the invoices were not received until January 2019, they were not included in the inventory count.
- 5) Tralee has hired equipment from Limerick Machine Hire Ltd at a cost of £270. This has been included in the inventory count.
- 6) An inventory sheet totaling £616 was included in the count as £661.

Required:

- (i)** Explain how each of the above items would impact on the inventory valuation and correct the original valuation to take account of the changes. **[10]**
 - (ii)** Given no other factors to consider, identify the impact the above changes would have on Tralee's gross profit. **[2]**
 - (iii)** Explain briefly why inventory should be valued at *the lower of cost or net realisable value*. **[2]**
- (b)** A business Y, with a financial year ending 31st December, bought a machine in 2016 for £8,000 and in 2018 part exchanged it against a new machine costing £12,000. The part exchange allowance was £2,000. Y depreciates its machines at 40% reducing balance and charges no depreciation on the year of disposal.

Required:

Complete the ledger accounts for 2018 to record the above transactions. **[6]**

Question B3

(a) The following relate to businesses that do not keep full accounting records.

- (i) The net assets of Dublin, a sole trader, at 1st January 2018, amounted to £210,750.

During the year to 31st December 2018 Dublin introduced additional capital of £35,000 and made drawings from the business of £44,500.

At 31st December 2018 Dublin's net assets were £225,800.

Required:

Calculate Dublin's profit for year to 31st December 2018.

[3]

- (ii) Derry & Sons have the following information from their accounting records.

	£
Trade payables at 1 st January 2018	211,800
Trade payables at 31 st December 2018	259,100
Payments to suppliers	974,000
Goods taken from inventory for Dublin's personal use	14,900
Refunds from suppliers	7,200
Discounts received	9,650

Required:

Calculate the purchases figure that Derry should include in its cost of sales figure for year ended 31st December 2018.

[6]

- (b) Waterford is a sole trader making up his accounts to 31st December each year.

The following utility bills were received during 2016; 2017; 2018

	2016	2017	2018
	£	£	£
31 st January	-	7,200	7,500
30 th April	5,400	5,600	6,400
31 st July	4,800	4,900	5,300
31 st October	3,900	4,500	5,200

The invoices received in 2016 totaled £14,100, however utility charges for November and December were not invoiced until the end of January 2017 (and similarly in 2017/2018).

Required:

Draft the utility ledger accounts for 2016 and 2017 (assuming that Waterford has a clear idea on future bills) showing clearly the requisite charge to P&L for both years. [8]

- (c) A purchase day book total of £9,490 has been entered into the control account as £9,940.

Required:

Assess the impact on the control account and on the list of receivables total after the correction has been made. [3]

- This is the end of the exam -