NCUK

NCUK INTERNATIONAL YEAR ONE BUSINESS

IDBFN001 Financial Accounting 1

2018-2019

Exam

Mark Scheme

Section A

Question A1

(a)

Working Notes:

1) Vehicle depreciation:

Cost

	£		£
Bal b/fwd	35,000	Disposal	10,000
		Bal c/fwd	25,000
	35,000		35,000

Provision for Depreciation

	£		£
Disposal £[2,000 + 1,600]	3,600	Bal b/fwd	15,000
Bal c/fwd	14,120	P&L	2,720*
	17,720		17,720

*20% x (25,000 – (15,000 – 3,600)) =2,720

Disposal

	£		£
Vehicle	10,000	Provision for depreciation	3,600
		Bank	4,000
		Loss on disposal (P&L)	2,400
	10,000		10,000

2) Commission on sales = ((5% x £50,000) – 2,000) = £500
3) Electricity = £(4,100 – 700 + 450) = £3,850

Yeats: Statement of Profit or Loss for Year Ending 31st December 2018

	£	£	£
Sales			180,500
Less returns			1,500
			179,000
Less cost of sales:			
Opening inventory		44,750	
Purchases	91,300		
Add carriage-in	800		
Less returns	(750)		
		91,350	
		136,100	
Less closing inventory		61,600	
			74,500

Gross profit			104,500
Less expenses:			
Depreciation:			
Premises	4,000		
Fixtures	6,000		
Vehicles	2,720		
Loss on disposal	2,400	15,120	
Wages (£2,400 owing)		28,800	
Electricity		3,850	
Marketing (£1,240 owing)		7,440	
Irrecoverable debts (net)		950	
Discounts allowed		1,950	
Agent commission		2,500	
Vehicle expenses		2,900	
Increase in allowance for receivables		250	
Interest		3,600	67,360
Net Profit			**37,140**

Yeats: Statement of Financial Position as at 31st December 2018

	Cost	**Depreciation**	**NBV**
Non-current assets			
Premises	200,000	28,000	172,000
Fixtures	60,000	24,000	36,000
Vehicles	25,000	14,120	10,880
			218,880
Current assets			
Inventory		61,600	
Receivables	24,100		
Less allowance	650	23,450	85,050
			303,930
Capital and Liabilities			
Capital			
Capital [1-1-18]			235,800
Profit		37,140	
Drawings		(30,350)	
			6,790
			242,590
Non-current liabilities			
12% loan			30,000
Current liabilities			
Payables		10,650	
Bank (£4,000 from disposal)		14,000	
Interest owing		1,800	
Wages owing		2,400	
Marketing fees owing		1,240	
Commission owing		500	

Other expenses owing		750	31,340
			303,930

Marks allocated:

Statement of P&L

- Gross profit correctly calculated. (1)
- Correct calculation of premises (1) and fixtures depreciation (1).
- Depreciation of vehicles (relative difficulty for extra tariff). (2)
- Loss on disposal correctly calculated. (2)
- Adjustment of receivables allowance. (1)
- Adjustment to electricity charge (including deducting of c/fwd accrual). (1)
- Interest charge correctly calculated. (1)
- Netting off of irrecoverable debt. (1)
- 1 mark for each of the four other accrual adjustments. (4)
- Correct net profit, reflecting accuracy and adherence to principle. (1)

Statement of Financial Position

- Correct fixtures and premises balance. (1)
- Correct vehicle balance. (1)
- Adjustment to bank figure. (1)
- Adjustment to receivables. (1)
- 1 mark for each of the five other adjustments to current liabilities. (5)
- Final balances in agreement, reflecting both accuracy and full adherence to principle. (one c/fwd error, either arithmetic or of principle, will allow centre to credit student with 1 mark). (2)
- Although a sole trader question, credit given for use of IAS1 structure:
- Terminology in line with IAS1 guidelines across both statements. (1)
- Lay out of statement of financial position is clear and in line with generally accepted structures. (1)

[29 marks]

(b) Accounting Standards:

Points might include:

- Key point – many users rely on financial statements (investors; trade creditors; loan creditors etc) and these users need some reliance that the financial statements are accurate and meaningful. Being produced to a given standard provides at least a minimum degree of assurance.
- Mandatory accounting standards (backed by external audit) might discourage directors/owners from manipulating the accounts to over state profits to impress shareholders or indeed understate profits to avoid tax.
- Mandatory standards allow the accounting profession to define more precisely how figures should be presented in the financial statements thereby (again)

requiring a degree of discipline on directors to provide a true and fair view of the company's performance.

- By following mandatory standard all company accounts should be produced (more or less) incorporating the same guidelines with broadly the same assumptions. This makes useful comparisons between companies more likely – a valuable aid to investors.

Marks allocated:

- Student provides a reasonably coherent and relevant response covering any three of the points above (or others at the centre's discretion) – 2 marks for each point. (weaker responses may be credited with 1 mark).

[6 marks]

Section B

Question B1

(a) Journal Entries:

		£
1)	Cr Discount allowed	360
	Cr Discount received	360
	Dr Suspense	720
2)	Cr Suspense	4,240
	Dr Wages	4,240
3)	Cr J Galway	935
	Dr Wexford & Co	935
4)	Cr Cost of Sales	1,200
	Dr Inventory	1,200
5)	Cr Suspense £[810-180]	630
	Dr Mayo & Partners	630
6)	Cr P Cork	2,200
	Dr Sales	2,200

Marks allocated:

- 2 marks for journal entry 1).
- 1 each mark for other entries 2) to 6).

[7 marks]

(b) **Suspense Account**

	£		**£**
Balance per TB	4,150	Wages	4,240
Discounts	720	Mayo	630
	4,830		4,830

Marks allocated:
- 1 mark for attempt to set up a suspense account. (1)
- 1 mark for correctly entering debit balance. (1)
- 2 marks for discounts adjustment. (2)
- 1 mark each for the other two adjustments. (2)
- 1 mark for clearing balance, reflecting both accuracy and non-inclusion of irrelevant items. (1)

[7 marks]

(c)

Draft P&L Account: Amendments:

	£	**£**
Draft P&L balance		44,700
Add:		
Discounts	720	
Inventory	1,200	1,920
Less:		
Wages	4,240	
Sales	2,200	(6,440)
Adjusted profit		40,180

Marks allocated:
- 1 mark for each correct adjustment to P&L. (4)
- 2 marks for correct final profit figure, reflecting credit for students who do not include erroneous adjustments. (2)

[6 marks]

Question B2

(a)

i) **Inventory valuation:**

Impact of changes:

1) Inventory reduced to NRV = £165 (£300-£135) i.e. reduction of £360. (2)
2) Correction of net addition – inventory reduced by £340 -£120 = £220
3) Inventory again reduced to NRV = £250 (£500 -£250) i.e. reduction of £100. (2)
4) Inventory of £2,600 has been received so should be included, i.e. increase of £2,600

5) Hire goods not included, i.e. reduce by £270
6) Transposition error – cost reduced by (£661 - £616) = £45

Amendment to inventory valuation:

	£	**£**
Original valuation per count		£46,500
Add:		
Goods received but not included (4)		2,600
Less:		
Reduction to NRV. (1)	360	
Addition errors. (2)	220	
Reduction to NRV. (3)	100	
Hire goods. (5)	270	
Transposition error. (6)	45	(995)
Amended valuation		48,105

Marks allocated:

- Two marks for each of adjustments 1) and 3). (4)
- One mark for each of the other four adjustments. (4)
- One mark for applying the adjustments to the inventory valuation in a logical manner, in line with previous analysis. (1)
- One mark for correct final valuation, reflecting arithmetic accuracy. (1)

[10 marks]

ii) With no other factors to account for the gross profit would increase by £1,605, in line with the higher inventory valuation and lower cost of sales.
(Note, if a student says reduced by £995 – given that purchases should also increase by £2,600, leaving cost of sales unchanged by this item – this is acceptable).

Marks allocated:

- Identifying both the direction of change in GP and the amount of the change (c/fwd errors not further penalised).

[2 marks]

iii) This simply ensures that profit is not being anticipated – general rule is that assets should not be carried at amounts greater than from their sale or use. Valuing inventory at the lower of cost or NRV is in line with this principle – what previously might have been referred as the ‘prudent concept’ in accounting.

Marks allocated:

- Student able to provide reasonable explanation, covering key points per above. (1 mark for limited/partial response).

[2 marks]

(b)

Old Machine (cost)

2018	**£**	**2018**	**£**
Bal b/d	8,000	Disposals	8,000

Old Machine accumulated depreciation

2018	**£**	**2018**	**£**
Disposals	5,120	Bal b/d (3200 + 1920)	5,120

New machine (cost)

2018	**£**	**2018**	**£**
Disposals	2,000	Bal c/d	12,000
Cash	10,000		
	12,000		12,000

Disposals

2018	**£**	**2018**	**£**
Old machine (cost)	8,000	Accumulated depreciation	5,120 (1)
		Part exchange – new machine	2,000 (1)
		P&L loss	880 (1)
	8,000		8,000

Marks allocated:

- Correct transfer from old machine account to disposals. (1)
- Correct calculation of accumulated depreciation. (1)
- Correct inclusion of part exchange as debit in new machine account. (1)
- Entries in disposal account as above. (3)

[6 marks]

Question B3

(a)

i) Dublin

- o Increase in net assets = capital introduced + profit – drawings
- o Increase in net assets = £225,800 - £210,750 = £15,050
- o Profit = £15,050 - £35,000 (new capital) + £44,500 (drawings)
- o = £24,550

Marks allocated:

- Recognise link between net assets; profit and new capital/drawings. (1)
- Manipulate figure to accurately calculate profit. (2)

[3 marks]

ii) Derry & Sons

	£		£
Payments	974,000	Bal b/fwd	211,800
Discounts	9,650	Refunds	7,200
		Goods for own use	14,900
Bal c/fwd	259,100	Purchases (bal)	1,008,850
	1,242,750		1,242,750

Marks Allocated:

- Understand problem as control account and make an attempt accordingly. (1)
- 0.5 marks each for the opening balance and payments figure correctly entered into the account. (1)
- 1 mark for each of the other three entries entered correctly into the control account. (3)
- Identifying the correct purchases figure as balancing item, reflecting both understanding of principle and arithmetic accuracy. (1)

[6 marks]

(b)

Utility Account [2016]

	£		**£**
30/4 Cash	5,400		
31/7 Cash	4,800		
31/10 Cash	3,900		
31/12 accrual c/d	4,800*	31/12 P&L	18,900
	18,900		18,900

*two months (i.e. Nov/Dec) from three of £7,200

Utility Account [2017]

	£		**£**
31/1 Cash	7,200	1/1 accrual b/d (reversed)	4,800
30/4 Cash	5,600		
31/7 Cash	4,900		
31/10 Cash	4,500		
31/12 accrual c/d	5,000*	31/12 P&L	22,400
	27,200		27,200

*£7,500 x 2/3

Marks allocated:

- Setting up cash entries to debit of each account- no errors. 1 mark for each year. (2)
- Correctly calculate each year's accrual – 1 mark each year. (2)

- Enter accrual as bal c/d in each year – 1 mark for each year. (2)
- 1 mark for correctly reversing the accrual in 2017.
- 1 additional mark for the correct P&L balance in both year's account, reflecting accuracy throughout.

[8 marks]

(c) Adjustments required:

  - o Debit control account with £450 (£9,940 - £9,490)
  - o No change required for list of balances – these are correct.

Marks allocated:

- 1 mark for debit to control account and 1 mark for the correct amount.
- 1 mark for recognising no requirement to change list of balances.

[3 marks]

