

Financial Accounting I

1st Year Examination

August 2010

Paper, Solutions & Examiner's Report

IMPORTANT NOTE

This Examination Paper and Suggested Solutions have been adjusted to reflect the International Accounting Standards terminology and format, which will be examined from May 2011 until further notice.



NOTES TO USERS ABOUT THESE SOLUTIONS

The solutions in this document are published by Accounting Technicians Ireland. They are intended to provide guidance to students and their teachers regarding possible answers to questions in our examinations.

Although they are published by us, we do not necessarily endorse these solutions or agree with the views expressed by their authors.

There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by us. Alternative answers will be marked on their own merits.

This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

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Accounting Technicians Ireland
First Year Examination: Autumn 2010
Paper : FINANCIAL ACCOUNTING I

Tuesday 17th AUGUST 2010 - 9.30 a.m. to 12.30 p.m.

INSTRUCTIONS TO CANDIDATES

PLEASE READ CAREFULLY

Candidates must indicate clearly whether they are answering the paper in accordance with the law and practice of Northern Ireland or the Republic of Ireland.

In this examination paper the £ symbol may be understood and used by candidates in Northern Ireland to indicate the UK pound sterling and the € symbol by candidates in the Republic of Ireland to indicate the Euro.

Answer ALL THREE questions in Section A and TWO of the three questions in Section B. If more than TWO questions is answered in Section B, then only the first two questions, in the order filed, will be corrected.

Candidates should allocate their time carefully.

All workings should be shown.

All figures should be labelled as appropriate e.g. £s, €s, units, etc.

Answers should be illustrated with examples, where appropriate.

Candidates may ignore any VAT implications to transactions throughout this paper unless the question specifically instructs them to do otherwise.

Question 1 begins on Page 2 overleaf.

SECTION A

Answer ALL THREE QUESTIONS (Compulsory) in this Section

QUESTION 1 (*Compulsory*)**Part A**

The role of an accountant within an organisation can be wide and diverse. Outline four activities that accountants normally undertake within business organisations.

6 Marks

Part B

Accounting aims to provide useful information to a wide variety of user groups. You are required to:

- i. List four users of accounting information.
- ii. State the type of information that each user is interested in.
- iii. State whether the user is internal or external to an organisation.

Note: one user must be internal.

6 Marks

Part C

Financial and management accounting are two different branches of accounting that have developed over time to meet the informational requirements of the users of financial information. You are required to:

- i. Provide an appropriate definition of financial accounting and management accounting.
- ii. Outline four differences between management accounting and financial accounting.

4 Marks

4 Marks

Total 20 Marks

QUESTION 2 (Compulsory)**Part A**

The following information is available for sole trader J. Mc Ginty for the year ended 31 December 2009:

	£/€
Opening receivables debit balances	487,900
Opening receivables credit balances	3,290
Credit sales	1,060,800
Credit sales returns	32,650
Cash received from customers (95% from credit customers)	987,420
Irrecoverable debts	21,700
Irrecoverable debts previously written off recovered	6,300
Opening allowance for receivables	25,000
Contra entry with balances on payables ledger	4,750
Refunds to receivables for over payment	2,780

You are required to:

- i. With the aid of a receivables control account, calculate the closing receivables figure as at 31 December 2009.
8 Marks
- ii. Calculate the closing allowance for receivables assuming that J. Mc Ginty wishes to set the closing allowance for receivables at 5% of outstanding receivables as at 31 December 2009.
2 Marks
- iii. Prepare appropriate income statement and statement of financial position extracts to illustrating how the information above would be presented in the financial statements of J. Mc Ginty for the year ended 31 December 2009.
6 Marks

Part B

Explain your understanding of the accounting concept 'prudence' and illustrate how establishing an allowance for receivables can be considered as an application of the prudence concept.

4 Marks
Total 20 Marks

QUESTION 3 (*Compulsory*)

A. Middle is a sole trader with a small business. The trial balance extracted as at 31 December 2009 failed to agree. The debits exceeded the credits by £/€4,120.

A detailed examination of the books was undertaken and the following matters were uncovered:

1. The total in the sales day book was £/€42,100 - the figure used when posting sales to the T accounts was £/€41,200.
2. No entry had been made for expenses paid in cash from the petty cash tin, the expenses paid in this manner were as follows:
 - i. Canteen supplies £/€75
 - ii. Postage stamps £/€35
 - iii. Present for retiring employee £/€170
3. Discounts allowed of £/€65 were credited to the discount received account. The entry in the receivable's personal account was correct.
4. A credit note for £/€770 for purchases returns was treated correctly in the supplier's account and debited to the purchases returns account as £/€880.
5. A cheque payment to a payable for £/€1,300 was treated appropriately in the supplier's account and debited to drawings.
6. Cash drawings by A. Middle of £/€1,110 were treated as cash sales in error.
7. An old motor vehicle was sold on December 15th for £/€3,700. The vehicle originally cost £/€16,750 and had a balance in the accumulated depreciation account of £/€14,100 at the time of sale. The only entry that has been made to record the transaction is to debit bank and credit sales with £/€3,700.

(Ignore the affects of VAT and depreciation)

You are required to:

- a) Prepare the journal entries, with the appropriate narratives, necessary to correct the above errors.
11 Marks
- b) Prepare a suspense account to clear the difference.
5 Marks
- c) Prepare a working showing the effect on proprietor's profit (if any) of correcting each of the above errors.
4 Marks

Total 20 Marks

Answer any TWO of the three questions in this Section

QUESTION 4**Part A**

Outline your understanding of how the VAT system operates.

(Note: knowledge of VAT rates is not expected).

4 Marks**Part B**

The following information is available for A. Mc Mahon a sole trader registered for VAT for the month of December 2009:

- Sales on credit for the month of December 2009 amounted to £/€164,250 net of VAT, £/€199,564 gross;
- Sales returns (all credit) for the month of December 2009 amounted to £/€14,200 net of VAT, £/€17,253 gross;
- Purchases on credit for the month of December 2009 amounted to £/€105,980 net of VAT, £/€128,766 gross;
- Purchases returns (all credit) for the month of December 2009 amounted to £/€11,200 net of VAT, £/€13,608 gross;
- A. Mc Mahon pays £/€11,000 in VAT to the Collector General monthly by direct debit on the 15th of every month.

The VAT liability of A. Mc Mahon as at 1 December 2009 was £/€15,460.

You are required to:

Prepare the appropriate T accounts to record the above entries for the month of December 2009, including the VAT T account.

8 Marks**Part C**

Write a brief note on each of the following terms:

- Ethics in accounting.
- Whistle blowing.

6 Marks

Presentation and format.

2 Marks**Total 20 Marks**



The following trial balance was extracted from the books of M. Edwards, a sole trader, 31 December 2009:

	£/€	£/€
Buildings at cost	550,000	
Buildings accumulated depreciation		77,000
Fixtures and fittings at cost	71,200	
Fixtures and fittings accumulated depreciation		24,920
Motor vehicles at cost	52,000	
Motor vehicles accumulated depreciation		20,500
Receivables	63,000	
Payables		49,700
Bank		9,600
Cash	800	
5% Loan		150,000
Inventories	29,400	
Sales and purchases	241,050	410,000
Sales return	11,000	
Light and heat	970	
Telephone and internet	1,980	
Discounts received and allowed	2,200	1,900
Carriage	15,400	
5% Loan interest	7,500	
Rental income		34,500
Wages and salaries	74,200	
Insurance	14,230	
Bank charges	410	
Capital 1/1/09		371,820
Drawings	14,600	
	<u>1,149,940</u>	<u>1,149,940</u>

The following information, which has not been accounted for above, is also available:

1. The inventory take as at 31 December 2009 showed inventory items at cost of £/€31,110. Included in this figure were inventories items with a cost price of £/€6,100 and a net realisable value of £/€3,000.
2. During the year to 31 December 2009, M. Edwards took £/€9,800 of inventory items for his personal use.
3. Depreciation is provided for at the following rates:
 - a) Buildings - 2% straight line
 - b) Fixtures and fittings- 10% straight line
 - c) Motor vehicles - 15% reducing balance
4. An irrecoverable debt of £/€5,400 is to be written off as irrecoverable. M. Edwards is satisfied that the remaining receivables' balances are all recoverable and that no closing allowance for receivables is required.
5. 40% of carriage is carriage inwards and the remainder is carriage outwards.
6. An amount of £/€510 is prepaid in relation to insurance as at 31 December 2009.

You are required to prepare:

- a) The income statement for the year ended 31 December 2009.

11 Marks

- b) The statement of financial position as at that date.

7 Marks

Presentation and format.

2 Marks

Total 20 Marks

The following information is available for Woods Golf Club for the year to 31 December 2009.

Receipts and Payments Account			
Details	£/€	Details	£/€
Balance c/d	???	Light and heat (50% relates to the bar)	11,110
Subscriptions received	186,320	Clubhouse fixtures and fittings	7,580
Proceeds from raffle	19,750	Clubhouse rent	90,000
Bar sales	201,790	Barperson salary	17,500
Interest received	540	Insurance (60% relates to bar)	22,000
		Raffle prizes & associated costs	4,620
		Greenkeeper salary	31,500
		Bar purchases	102,005
		Club secretary & president expenses	9,000
		Green maintenance	9,940
		Bar cleaning	7,100
		Closing bank balance c/d	109,730
	<u>422,085</u>		<u>422,085</u>
Opening balance b/d	109,730		

Other assets and liabilities of the club are as follows:

	1/1/09	31/12/09
	£/€	£/€
Clubhouse house fixtures and fittings (NBV)	30,150	???
Clubhouse rent prepayment	15,000	???
Bar inventory	19,060	17,005
Bar purchases payables	9,710	8,090
Subscriptions in advance	9,730	6,330
Subscriptions in arrears	2,670	10,440
Accruals green maintenance	115	80

Notes:

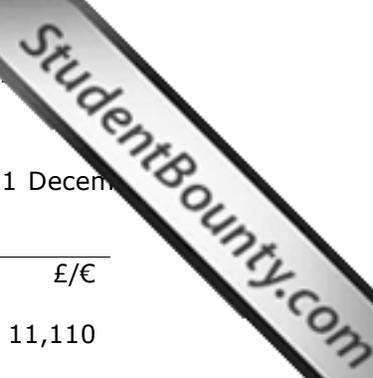
1. Depreciation on fixtures and fitting is to be provided for at a rate of 5% per annum reducing balance method.
2. Rent is paid every two months in advance, for example rent for January and February 2009 is paid on the 31 December 2008. The annual rent charge is €90,000.

You are required to:

- i. Calculate the accumulated fund as at 1 January 2009. **4 Marks**
- ii. Prepare a bar trading account (income statement) for the year ended 31 December 2009. **4 Marks**
- iii. Calculate the proceeds from the raffle. **2 Marks**
- iv. Prepare the club's income and expenditure account for the year end 31 December 2009. **8 Marks**

Presentation and format.

2 Marks
Total 20 Marks



1st Year Examination: August 2010

Financial Accounting I

Suggested Solutions

Students please note: These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

Solution One

Part A

The accountant's role in the organisation can be analysed as follows:

1. Preparation and presentation of timely accurate financial/management accounts to management to help management interpret the financial information.
2. Identification of areas of inefficiency and wastages of resources in the business.
3. Treasury functions: The accountant also plays the role of treasury functions in such a way that they raise finance, cash management, etc.
4. Setting up an effective system of internal and accounting controls.
5. Preparation of feasibility reports: These reports assist management in assessing the viability/profitability or otherwise proposed capital expenditure such as the opening of a new factory or branch.
6. Investigation of the performance/operations of competing business organisations to assist management in policy formulation.
7. Investigation of fraud within the organisation, this is a key role of the accountant in preparation of an audit at year-end.

Any other reasonable answers will be accepted.

Part B

Any four of the following are acceptable – however one must be internal.

Investors/Owners

Investors are concerned about risk and return in relation to their investments. They require information to decide whether they should continue to invest in a business. They also need

to be able to access whether a business will be able to pay dividends, and measure the performance of the business' management overall.

The key accounting information for an investor is therefore:

- Information about growth, sales, volumes
- Profitability (profit margins, overall level of profit)
- Investment (amounts invested, assets owned)
- Business value (share price)
- Comparative information of competitors.

They are usually considered external but in private limited companies with a small number of investors they can be considered internal.

Lenders

Banks and loan stockholders who lend money to a business require information that helps them determine whether loans and interest will be paid when due.

The key accounting information for lenders is therefore:

- Cash flow
- Security of assets against which the lending may be secured
- Investment requirements in the business.

Payables

Suppliers and trade payables require information that helps them understand and assess the short-term liquidity of a business. Is the business able to pay short-term debt when it falls due?

The key accounting information for payables is therefore:

- Cash flow
- Management of working capital
- Payment policy.

Receivables

Customers and trade receivables require information about the ability of the business to survive and prosper. As customers of the company's products, they have a long-term interest in the company's range of products and services. They may even be dependent on the business for certain products and services.

The key accounting information for receivables is therefore:

- Sales growth
- New product development
- Investment in the business (e.g. production capacity).

Employees

Employees (and organisations that represent them – e.g. trade unions) require information about the stability and continuing profitability of the business. They are crucially interested in information about employment prospects and the maintenance of pension funding and retirement benefits. They are also likely to be interested in the pay and benefits obtained by senior management.

The key accounting information for employees is therefore:

- Revenue and profit growth
- Levels of investment in the business
- Overall employment data (numbers employed, wages and salary costs)

- Status and valuation of the company pension schemes/levels of contributions.

Government

There are many government agencies and departments that are interested in accounting information. For example, the revenue commissioners needs information on business profitability in order to levy and collect Corporation Tax. Customs and Excise need accounting information to verify Value Added Tax (VAT) returns; local government need similar information to levy local taxes and rates. Various regulatory agencies (i.e. the Environment Agency) need information to support decisions about grants, for example.

Analysts

Investment analysts are an important user group – specifically for companies quoted on the Stock Exchange. They require very detailed financial and other information in order to analyse the competitive performance of a business and its sector. Much of this is provided by the detailed accounting disclosures that are required by authorities such as the London Stock Exchange. However, additional accounting information is usually provided to analysts via informal company briefings and interviews.

Public at large

Interest groups, formed by various groups of individuals who have a specific interest in the activities and performance of businesses, will also require accounting information.

Part C

Part i

Financial Accounting

This is the process of summarising financial information in order to prepare the company's financial statements. The financial statements of an organisation are the Income Statement, Statement of Financial Position, Statement of Cash Flow and Explanatory Notes. These statements are primarily of interest to external users of accounting information. Financial statements are historical in nature in that they are prepared on a semi-annual/annual basis and are concerned primarily with the financial performance of the company in the income statement and the financial position of the company reported in the statement of financial position. Therefore from the perspective of management the information contained therein is not timely being six months or a year out of date by the time it is reported. Financial accounting is thus the manner in which an organisation communicates financial information, namely performance, position and cash flow to the outside world. It represents a report on the directors' stewardship of the funds entrusted to them by the shareholders.

The financial statements are public documents they are easily accessible, normally under the investor relations section on the company's website. A copy of the financial statements must also be filed with the Companies Registration Office (CRO) where they can be publicly accessed. Therefore they would not reveal details about, for example, an individual products' profitability. That information would be contained in the management accounts of the business.



This is the process of providing detailed information to management on current and planned events. This information assists managers in their roles of planning, controlling and making decisions. Usually management accounts are only available to internal users of accounting information. Management accounting will contain information such as department budgets, product profitability, information on production costs etc.

Part ii

The differences between management and financial accounting can be assessed under the following headings:

Legal Requirements

Limited companies are required by law to prepare on an annual basis the financial statements (end product of the financial accounting function within the business) for the company. Any company quoted on a stock exchange is required to prepare quarterly reports by the exchange. While most companies will have a management accounting function within the business there is no legal requirement to do so.

Users

The users of financial information are external to the business whereas the users of management accounts are internal to the business. Indeed within an organisation, management accounting information for example how profitable an individual product line is may only be available to senior management.

Audit Process

In some cases the financial statements of the company must be audited by an independent audit company before the information is released to shareholders. The function of the audit process is to give those who rely on the financial statements of the company assurance that the information contained therein represents a true and fair view of the company. The management accounts of a company do not have to be audited and indeed in many cases will contain information which may only be approximate (think for example of a budget which will contain estimates of future levels of income and expenditure). They are prepared internally and used internally within the company – thus there is no need for an audit as their does not exist the same conflict of interest which exists when financial accounts are being prepared.

Professional Regulations

The financial statements of a company must comply with all relevant professional standards (International Financial Reporting Standards or IFRS). Management accounts do not have any such regulation to be complied with. The formats of accounts is at the management's discretion as is the manner in which the figures are calculated and the assumptions which are made.

Timeliness

The main drawback of financial accounting is that the information contained in the financial statements is out of date by the time the financial statements are published to shareholders in the annual report. The emphasis in financial accounting is upon accuracy as opposed to

timeliness. For example the financial statements for year ended 31 December 2008 will not be published to the public until March 2009, thus the information is largely out of date. In management accounting, while accuracy is important, receiving the information in a timely manner is essential if the information is to be of any use to managers in the decision making process. There is no point in receiving information about a decision after the decision has been made.

Time Line

Financial accounting deals with information that is historic, all the figures shown have already happened in the past. Management accounting can deal with figures in the past, present and future. In addition financial information is prepared quarterly, semi annually or annually whereas management accounting is prepared whenever it is required by managers.

Scope

Financial statements deal with the organisation as a whole, in that the financial statements are reporting on the financial performance, position and cash flow of the whole company. Management accounts tend to examine segments of the business and individual products, for example a departmental budget or the costing of a particular product line.

Detail

The information contained in financial accounting tends to aggregate numbers and therefore some detail has been lost. This aggregation is essential as without it the financial statements would become very cluttered and difficult to understand. The notes to the financial statements attempt to add detail to the aggregated information in the financial statements. Managers involved in the day-to-day running of the organisation require much more detailed information than that contained in the financial accounts of the organisation. Thus management accounts tend to be more detailed.

Solution Two

Part A

i

Receivables Control Account

Date	Details	€	Date	Details	€
1/1/09	Balance b/d	487,900	1/1/09	Balance b/d	3,290
	Sales	1,060,800		Sales returns	32,650
	Irrecoverable debt recovered	6,300		Cash receipts	938,049
	Refunds	2,780		Irrecoverable debts	21,700
				Irrecoverable debt recovered	6,300
				Contra	4,750
			31/12/09	Balance c/d	551,041
		<u>1,557,780</u>			<u>1,557,780</u>
1/1/2010	Balance b/d	551,041			

ii

Closing Allowance for Receivables:

$$€551,041 * 5\% = €27,552$$

iii

J. Mc Ginty

Statement of Financial Position as at 31 December 2009 (*Extract*)**Current assets**

Receivables	551,041	
Closing allowance for receivables	<u>(27,552)</u>	
		523,489

J. Mc Ginty

Income Statement for the year ended 31 December 2009 (*Extract*)

Credit sales	1,060,800
Credit sales returns	<u>(32,650)</u>
Net sales	1,028,150

Less Expenses

Irrecoverable debt recovered	(6,300)
Irrecoverable debts	21,700
Increase in allowance for receivables	2,552

Part B

Prudence

Prudence states that under conditions of uncertainty that assets are not overstated and that liabilities are not understated.

The establishing of a closing allowance for receivables is an example of the application of the prudence concepts because as at the year-end a business will have a receivable's listing all of whom owe the business monies. However from past experience and general economic environment knowledge the business owner realises, in all probability, that all balances owed by receivables will not be received. However the business owner does not have specific knowledge of what balances will turn out to be unrecoverable in the future. Therefore a general allowance is established based on past experience and general market knowledge to account for the fact that in all probability all receivables' balances will not be recovered. Therefore the balance for receivables that is presented in the Statement of Financial Position is a realistic valuation of the year end receivables balance under conditions of uncertainty regarding future payment by receivables.



Part i

	Debit	Credit
	€	€
1.		
Dr Receivables	900	
Cr Sales		900
Being sales book undercast		
2.		
Dr Canteen	75	
Dr Postage	35	
Dr Entertainment	170	
Cr Petty cash		280
Being an error of omission		
3.		
Dr Discount received	65	
Dr Discount allowed	65	
Cr Suspense		130
Being discounts allowed inappropriately recorded		
4.		
Dr Suspense	1,650	
Cr Purchases returns		1,650
Being purchases returns inappropriately recorded		
5.		
Dr Suspense	2,600	
Cr Bank		1,300
Cr Drawings		1,300
Being cheque payments treated as drawings in error		
6.		
Dr Cash sales	1,110	
Cr Bank		1,110
Dr Drawings	1,110	
Cr Bank		1,110
Being drawings treated as sales in error		

7.

Dr	Sales	3,700	
Cr	Disposals		3,700
Dr	Disposals	16,750	
Cr	Non current assets at cost		16,750
Dr	Accumulated depreciation	14,100	
Cr	Disposals		14,100
Dr	Disposals	1,050	
Cr	Income statement		1,050
	Being disposal of non current asset un recorded		

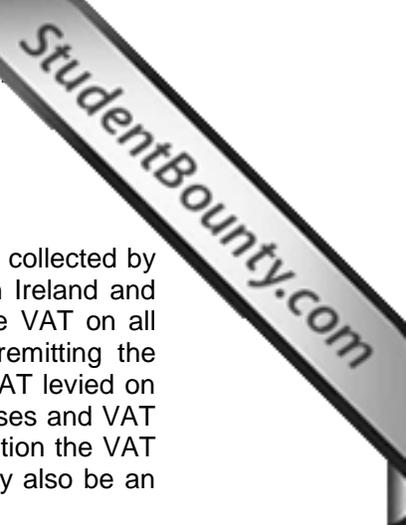
Part ii

Suspense Account

Details	€	Details	€
Error 5	2,600	Balance	4,120
Error 4	1,650	Error 3	130
	<u>4,250</u>		<u>4,250</u>

Part iii

Proprietor's Profit	€
Error 1	900
Error 2	(280)
Error 3	(130)
Error 4	1,650
Error 5	-
Error 6	(1,110)
Error 7	<u>(2,650)</u>
	(1,620)



Part A

VAT or valued added tax is a tax levied on the sales of all businesses. VAT is collected by businesses and remitted to Revenue generally speaking every two months in Ireland and every three months in Northern Ireland and the UK. A business must charge VAT on all vatable sales but is allowed to reclaim VAT on purchases. Thereby only remitting the balance to Revenue. Where the VAT paid on purchases is greater than the VAT levied on sales a business can claim a refund of the difference between VAT on purchases and VAT on sales from Revenue. Therefore in the year-end Statement of Financial Position the VAT balance will usually be a liability representing funds owed to Revenue but may also be an asset representing a refund due by revenue to the business.

Part B

Sales A/C

	€		€
Balance c/d	164,250	Receivables	164,250
	<u>164,250</u>		<u>164,250</u>
		Balance b/d	164,250

Receivables A/C

Sales	199,564	Sales returns	17,253
		Balance c/d	182,311
	<u>199,564</u>		<u>199,564</u>
Balance b/d	182,311		

Sales Returns A/C

	€		€
Receivables	14,200	Balance c/d	14,200
	<u>14,200</u>		<u>14,200</u>
Balance b/d	14,200		

Payables A/C

	€		€
Purchases returns	13,608	Purchases	128,766
Balance c/d	115,158		<u>128,766</u>
	<u>128,766</u>		<u>128,766</u>
		Balance b/d	115,158

Purchases A/C

	€		€
Payables	105,980	Balance c/d	105,980
	<u>105,980</u>		<u>105,980</u>
Balance b/d	105,980		

Purchases Returns A/C

	€		€
Balance c/d	11,200	Payables	11,200
	<u>11,200</u>		<u>11,200</u>
		Balance b/d	11,200

VAT Control

	€		€
VAT on purchases	22,786	Balance b/d	15,460
VAT on sales returns	3,053	VAT on sales	35,314
Bank	11,000	VAT on purchases returns	2,408
Balance c/d	16,343		
	<u>53,182</u>		<u>53,182</u>
		Balance b/d	16,343

Bank A/C

	€		€
Balance c/d	11,000	VAT Direct Debit	11,000
	<u>11,000</u>		<u>11,000</u>
		Balance c/d	11,000

Part C**Ethics and the accountant**

Ethics in accounting is of utmost importance to accounting professionals and those who rely on their services. Accounting professionals know that people who use their services, especially decision makers using financial statements, expect them to be highly competent, reliable and objective. Those who work in the field of accounting must not only be well qualified but must also possess a high degree of professional integrity. A professional's good reputation is one of his or her most important possessions.

The general ethical standards of society apply to people in professions such as medicine and accounting just as much as to anyone else. However, society places even higher expectations on accountants. People need to have confidence in the quality of the complex services provided by accountants. Because of these high expectations, accountants have

adopted a code of ethics, also known as codes of professional conduct. These codes call for their members to maintain a level of self-discipline that goes beyond the requirements of laws and regulations.

Whistle blowing

A whistle blower is a person who alleges misconduct in the workplace and it covers all methods of reporting by employees of any criminal practices within their company. Whistle blowers make their allegations internally (for example, to other people within the accused organisation) or externally (to law enforcement agencies, to the media or to groups concerned with the issues). This practice may cause discontent in the work place as it involves a clash between loyalty and confidentiality.

Solution Five

M. Edwards

Income statement for the year ended 31 December 2009

	€	€
Sales		410,000
Sales returns		<u>(11,000)</u>
Net sales		399,000
Cost of sales		
Opening inventory	29,400	
Purchases	231,250	
Carriage inwards	<u>6,160</u>	
	266,810	
Less closing inventory	<u>(28,010)</u>	
Cost of sales		<u>(238,800)</u>
Gross Profit		160,200
Discount received		1,900
Rental income		34,500
<u>Less Expenses</u>		
Carriage outwards	9,240	
Light and heat	970	
Bank charges	410	
Insurance	13,720	
Interest	7,500	
Wages and salaries	74,200	
Discount allowed	2,200	
Depreciation of buildings	11,000	
Depreciation of fixtures & fittings	7,120	
Depreciation of motor vehicles	4,725	
Irrecoverable debts	5,400	
Telephone and internet	<u>1,980</u>	
Total expenses		<u>(138,465)</u>
Operating Profit		<u>58,135</u>

M. Edwards

Statement of Financial Position as at 31 December 2009

	2009 €	2009 €	2009 €
Non-current assets			
Buildings	550,000	(88,000)	462,000
Fixtures and fittings	71,200	(32,040)	39,160
Motor Vehicles	<u>52,000</u>	<u>(25,225)</u>	<u>26,775</u>
			527,935
Current assets			
Closing inventory		28,010	
Receivables		57,600	
Prepayments		510	
Cash		<u>800</u>	
			<u>86,920</u>
Total Assets			<u>614,855</u>
Equity and Liabilities			
Equity			
Capital		371,820	
Profit for 2009		<u>58,135</u>	
Accumulated profits		429,955	
Drawings		<u>(24,400)</u>	
			405,555
Non-Current Liabilities			
Term Loan			150,000
Current liabilities			
Payables		49,700	
Bank overdraft		<u>9,600</u>	
			59,300
Total Equity and Liabilities			<u>614,855</u>

Workings 1

	€
Closing inventory as per question:	31,110
Less write down of inventory	<u>(3,100)</u>
	28,010
Write down of inventory	
Cost	6,100
NRV of inventory	<u>(3,000)</u>
Difference between cost and NRV	3,100

Financial Accounting I
Workings 2

August 2010

1

	€
Purchases	241,050
Drawings	<u>(9,800)</u>
Restated purchases	231,250

	€
Drawings as per TB	14,600
Drawings	<u>9,800</u>
Restated drawings	24,400

Workings 3

	€
Cost of buildings	550,000
Depreciation	<u>2%</u>
Depreciation	11,000

	€
Cost of fixtures and fittings	71,200
Depreciation	<u>10%</u>
Depreciation	7,120

	€
Cost of MV	52,000
Depreciation	<u>(20,500)</u>
	31,500
Depreciation 15% RBM	15%
	4,725

Workings 4

	€
Receivables as per TB	63,000
Irrecoverable debts	<u>(5,400)</u>
	57,600

Workings 5

	€
Insurance as TB	14,230
Prepayments	<u>510</u>
	13,720



Workings 6

	€
Term loan as per TB	150,000
Interest	<u>5%</u>
	7,500



Solution Six

Part i

Receipts and Payments Account

Details	€	Details	€
Balance c/d	13,685	Light & heat (50% relates to the bar)	11,110
Subscriptions received	186,320	Clubhouse fixtures and fittings	7,580
Proceeds from raffle	19,750	Clubhouse rent	90,000
Bar sales	201,790	Barperson salary	17,500
Interest received	540	Insurance (60% relates to bar)	22,000
		Raffle prizes & associated costs	4,620
		Greens keeper salary	31,500
		Bar purchases	102,005
		Club secretary & president expenses	9,000
		Green maintenance	9,940
		Bar cleaning	7,100
		Closing bank balance c/d	109,730
	<u>422,085</u>		<u>422,085</u>
Opening balance b/d	109,730		

(Students are not expected to reproduce the bank T account in order to derive the opening balance)

	2009	2009
	€	€
Assets		
Fixtures and fittings	30,150	
Inventories	19,060	
Prepayments (rent)	15,000	
Subs in arrears	2,670	
Bank	<u>13,685</u>	
		80,565
Liabilities		
Payables	9,710	
Accruals telephone	115	
Subs in advance	<u>9,730</u>	
		(19,555)
Proprietors capital		61,010

Part ii

Wood Golf Club

Bar Trading Account (income statement) for the year ended 31 December 2009

	€	€
Sales		201,790
Cost of sales		
Opening inventory	19,060	
Purchases	100,385	
	<u>119,445</u>	
Less closing inventory	<u>(17,005)</u>	
Cost of sales		<u>(102,440)</u>
Gross Profit		99,350
<u>Less Expenses</u>		
Light and heat	5,555	
Bar person salaries	17,500	
Bar insurance	13,200	
Bar cleaning	7,100	
Total expenses		<u>(43,355)</u>
Operating Profit		<u>55,995</u>

Payables Control A/C

	€		€
Bank payments	102,005	Balance c/d	9,710
Balance c/d	8,090	Purchases	100,385
	<u>110,095</u>		<u>110,095</u>
		Balance b/d	8,090

Part iii

	€
Proceeds of the raffle	19,750
Costs of the raffle	<u>(4,620)</u>
	15,130

Part iv

Subscriptions Account

Details	€	Details	€
Opening subs in arrears	2,670	Opening subs in advance	9,730
I/S value for subs	197,490	Cash received for subs	186,320
Closing subs in advance	6,330	Closing subs in arrears	10,440
	<u>206,490</u>		<u>206,490</u>
Opening subs in arrears	10,440	Opening subs in advance	6,330

Woods Golf Club

Income and expenditure account for the year to 31 December 2009

	€	€
<u>Income</u>		
Subscriptions		197,490
Proceeds from raffle		15,130
Bar profits		55,995
Interest received		<u>540</u>
		269,155
<u>Expenditure</u>		
Rent	90,000	
Light and heat	5,555	
Greens keeper salary	31,500	
Depreciation	1,887	
Insurance	8,800	
Club secretary expenses	9,000	
Green maintenance (9,940 – 115 + 80)	<u>9,905</u>	
		<u>(156,647)</u>
Excess of income over expenses		112,508

Depreciation of F&F

	€
NBV of FF	30,150
Additions	<u>7,580</u>
	37,730
Depreciation 5% RBM	5%
	1,887

Rent Charge for PL

	€
Rent prepaid as at 1/1/09	15,000
Rent paid	<u>90,000</u>
	105,000
Rent prepaid as at 31/12/09	15,000
	<u>90,000</u>

(Note: Closing Accumulated Fund was not asked in the question – it is presented here as a student aid only)

Woods Golf Club

Accumulated Fund as at 31 December 2009

	€	€	2009 €
Non-current assets			
Fixtures and fittings			35,843
Current assets			
Closing inventories		17,005	
Subs in arrears		10,440	
Prepayments		15,000	
Cash		<u>109,730</u>	
			<u>152,175</u>
Total assets			<u>188,018</u>
Equity and Liabilities			
Accumulated fund			
Accumulated fund 1/1/09		61,010	
Excess of income over expenditure		<u>112,508</u>	
			173,518
Current liabilities			
Payables		8,090	
Subs in advance		6,330	
Accruals		<u>80</u>	
			<u>14,500</u>
Total Equity and liabilities			<u>188,018</u>

1st Year Examination: August 2010

Financial Accounting I

Examiner's Report

General

The overall standard of answers was mixed. Many candidates failed to attempt the required number of questions and struggled to achieve an overall passing mark as a result. In some cases candidates answered three questions from Section B of the paper, when only two were required and failed to answer all three of the compulsory questions from Section A.

The general presentation of scripts tended to be poor. The main areas of weakness in this regard were as follows:

- Poor handwriting;
- No workings presented;
- Workings for all questions completed together with no demarcation between question within the workings;
- Questions **parts** filed out of sequence.

Question 1

The theory question was generally well answered. The following points are made:

- Most students answered Part A reasonably well.
- Most students were in a position to name four users of accounting information. Some students omitted to note whether the users were external or internal and lost marks as a result.
A small minority of students having correctly identified four users of accounting information were unable to explain the type of information that each user would be interested in.
- The definitions for management accounting and financial accounting tended to be vague at best. Most students were not in a position outline four differences between management accounting and financial accounting.

Question 2

For most students this was their best question on the paper. The following were points are made:

- In general the preparation of the receivables control account was well answered. The following common mistakes were identified:
 - Some students included the total cash received as opposed to the cash received from credit customers in the solution;
 - Some students included the allowance for receivables within the control account in error;
 - Refunds to customers in general were not treated correctly.
- Students appeared to get confused when preparing the income statement and statement of financial position extracts. Opening and closing receivable's balances were presented as opening and closing inventory in error. Some students included the opening receivables balance with the closing allowance for receivables in the year-end statement of financial position in error.

- Part B of the question was poorly answered. Most students could not provide a definition of prudence and were not able to apply to link the concept with the establishment of an allowance for receivables.

Question 3

This question was very poorly answered by most students. Students appeared to have a poor knowledge of double entry bookkeeping and struggled to score marks as a result. Some students prepared T accounts as opposed to journal entries, while others did not include journal narratives.

Many students failed to attempt Part C of the question.

Question 4

A popular choice of question amongst candidates. Most students were able to provide an explanation for the operation of the VAT system and scored well in this part of the question as a result.

Answers for part B of the question were mixed. The following were the most common mistakes:

- Candidates did not know the bookkeeping rules to post the entries into the T accounts. Some candidates posted sales and purchases to the same side of the T accounts – demonstrating no logical thought in this regard.
- Sales and sales return, for example, were posted to the same T account by some students.
- Some students prepared day books as opposed to T accounts.
- The presentation of the solution tended to be very poor.

In general students were not able to provide an explanation for either the term “whistle blowing” or “ethics in accounting” as required in Part C. Given that similar questions had appeared in pilot papers, the topical nature of the terms and their importance to the accounting profession this was extremely disappointing.

Question 5

Nearly all students attempted this question. In general it was the best answered question. The following common mistakes were identified:

- Many candidates did not calculate closing inventory correctly. This was an area highlighted after the summer examination and appears disappointingly to have remained an area of weakness for many students.
- The drawings adjustment was poorly answered.
- Presentation was an issue for many students.

Question 6

This question provided very unpopular amongst candidates with only a minority attempting it. Common mistakes among this minority were as follows:

- Most candidates failed to realise that a working was required to calculate the opening bank balance for incorporation into the opening accumulated fund calculation. In some cases the closing balance was used in error.

- Some candidates incorporated cash flows and expenses for the year within the calculation for the opening accumulated fund. For example subscriptions received were frequently included within the calculation in error.
- Most candidates failed to realise that a working was required to calculate the figure for purchases of bar inventory.
- Only a small minority of candidates realised that workings were required in relation to subscriptions prior to inclusion within the income and expenditure account.