Accounting Technicians Ireland

Financial Accounting I

1st Year Examination

May 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.

Accounting Technicians Ireland

First Year Examination: Summer 2010

Paper : FINANCIAL ACCOUNTING I

Tuesday 18th May 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)*

The following trial balance was extracted from the books of S. Burke, a sole trader, on 31 December 2009:

	£/€	£/€
Fixtures, fittings and computers at cost	578,000	
Accumulated depreciation on fixtures, fittings and computers		64,100
Inventory as at 1/1/2009	42,190	
Receivables and payables	98,180	84,150
Bank		21,020
VAT liability		21,400
5% term loan		280,500
Purchases and sales	422,300	717,500
Sales and purchases returns	13,240	9,170
Discounts allowed and received	3,120	7,770
Carriage outwards	4,520	
Carriage inwards	4,750	
Light and heat	8,790	
Telephone and internet	6,900	
Insurance	16,700	
Rent	57,000	
Term loan interest	6,000	
Wages and salaries	39,070	
Allowance for receivables 1/1/2009		6,430
Irrecoverable debts	5,930	
Drawings	19,600	
Capital		114,250
	1,326,290	**1,326,290**

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

1. The inventory take as at 31 December 2009 showed the following information. Based on this information the value of closing inventory to be incorporated into the financial statements must be calculated.

Product	Quantity	Cost per unit	NRV per unit
	in Units	€/€	£/€
A	1,250	5.00	5.24
B	7,860	3.40	3.15
C	3,470	1.80	2.10

QUESTION 1 *(Cont'd)*

2. On 31 December 2009 the following transactions occurred; these have not been accounted for in the trial balance figures above:
   - **a)** A cheque received from a receivable for £/€3,750.
   - **b)** A cheque written for £/€14,500 to discharge a portion of the VAT liability.
3. The allowance for receivables is to be 10% of the outstanding receivables balance as at 31 December 2009.
4. Fixtures, fittings and computers are depreciated at 15% per annum using the reducing balance method. The depreciation policy is to charge a full year of depreciation in the year of acquisition and none in the year of sale.
5. £/€45,000 of rent in the trial balance above relates to the year from 1 April 2009 to 31 March 2010.
6. £/€900 relating to telephone charges are to be accrued as at 31 December 2009.

You are required to prepare:

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

10 Marks

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

8 Marks

Presentation and format.

2 Marks

Total 20 Marks

QUESTION 2 *(Compulsory)*

J. Jones is a sole trader, the following balances were in his receivable's ledger as at 1 December 2009:

Receivable Name	Nature of Balance	£/€
A. Acorn	Debit balance	54,210
B. Bally	Debit balance	13,250
C. Corry	Credit balance	1,740
D. Davin	Debit balance	8,900

The following transactions took place in the month of December 2009:

1. On 1 December 2009 goods valued at £/€1,400 net of VAT (£/€1,701 gross) were sold to B. Bally;

2. On 4 December 2009 goods valued at £/€7,200 net of VAT (£/€8,748 gross) were sold to A. Acorn;

3. On 9 December 2009 goods valued at £/€2,200 net of VAT (£/€2,673 gross) were returned by A. Acorn;

4. On 11 December 2009 goods valued at £/€15,000 net of VAT (£/€18,225 gross) were sold to D. Davin;

5. On 13 December 2009 the balance owed to C. Corry was repaid to her;

6. On 15 December 2009 goods valued at £/€5,600 net of VAT (£/€6,804 gross) were returned by B. Bally;

7. On 22 December 2009 the following payments were received:

i. A. Acorn: £/€31,240
ii. B. Bally: £/€5,000
iii. D. Davin: £/€2,430

You are required to:

a) Prepare the following books of original entry to record the above transactions:

i. The sales day book.
ii. The sales returns day book.
iii. The cheque payments book.
iv. The cash book.

6 Marks

QUESTION 2 CONTINUES ON THE NEXT PAGE

QUESTION 2 *(Cont'd)*

b) From the books of original entry prepared in part (a) above and any other relevant information, prepare the receivables control account for the month ended 31 December 2009.

3 Marks

c) Prepare the individual T accounts for each receivable for the month of December 2009 and extract a receivables listing as at 31 December 2009.

7 Marks

d) Reconcile the receivables listing as per part (c) to the receivables control account prepared in part (b).

2 Marks

Presentation and format.

2 Marks

Total 20 Marks

QUESTION 3 *(Compulsory)*

The following information has been extracted from the books and records of H. Roberts for the month of April 2010:

Bank T Account

Date		£/€	Date		£/€
			1/4/2010	Balance b/d	2,800
3/4/2010	Lodgement	10,840	5/4/2010	Cheque 74	3,597
			5/4/2010	Cheque 73	11,223
6/4/2010	Lodgement	9,975	6/4/2010	Standing order	980
			11/4/2010	Cheque 75	197
20/4/2010	Lodgement	1,250	19/4/2010	Cheque 79	3,570
			25/4/2010	Cheque 76	2,480
			26/4/2010	Wages & Salaries	12,450
30/4/2010	Lodgement	15,980	30/4/2010	Cheque 80	230
			30/4/2010	Balance c/d	518
		38,045			38,045
1/5/2010	Balance b/d	518			

The bank statement received from H. Roberts bank for the month of April 2010 is as follows:

Date	Particulars	Debit	Credit	Balance	
01-Apr-2010	Balance forward			5,820	Dr
01-Apr-2010	Lodgement		8,750	2,930	Cr
03-Apr-2010	Cheque 71	5,420		2,490	Dr
04-Apr-2010	Lodgement		10,840	8,350	Cr
06-Apr-2010	Standing order	890		7,460	Cr
07-Apr-2010	Lodgement		9,875	17,335	Cr
07-Apr-2010	Cheque 74	3,597		13,738	Cr
11-Apr-2010	Cheque 72	310		13,428	Cr
20-Apr-2010	Credit Transfer		11,550	24,978	Cr
20-Apr-2010	Lodgement		1,250	26,228	Cr
25-Apr-2010	Direct debit mobile phone	410		25,818	Cr
26-Apr-2010	Cheque 75	179		25,639	Cr
27-Apr-2010	Dishonoured cheque	1,250		24,389	Cr
27-Apr-2010	Cheque 77	56		24,333	Cr
29-Apr-2010	Cheque 78	174		24,159	Cr
30-Apr-2010	Bank charges and interest	192		23,967	Cr
30-Apr-2010	Cheque 76	2,480		21,487	Cr
30-Apr-2010	Payroll April 2010	12,450		9,037	Cr

You are required to:

a) With the aid of relevant examples, outline two reasons why the preparation of bank reconciliations on a regular basis is important for all businesses.

6 Marks

b) Prepare the corrected bank T account for the month of April 2010.

8 Marks

c) Prepare a bank reconciliation statement as at 30 April 2010.

6 Marks

Total 20 Marks

SECTION B

Answer any TWO of the three questions in this Section

QUESTION 4

The following information relating to the non-current assets of sole trader B. Martin as at 1 January 2009 is available:

	£/€
Premises at cost 1 January 2009	540,000
Accumulated depreciation premises 1 January 2009	113,400
Delivery vans:	
Delivery van A at cost (purchased 1 July 2004)	31,500
Delivery van B at cost (purchased 1 April 2006)	26,500
Delivery van C at cost (purchased 1 April 2007)	40,000

During the year to 31 December 2009 the following occurred:

Premises

Due to increased demand, B. Martin built an extension to his premises. The following costs were incurred:

- Site preparation £/€20,500
- Building materials £/€79,000
- Contract labour (used in the construction of the build) £/€61,000
- Architect and legal fees incurred £/€17,000
- General repairs to the existing building £/€6,460. (These repairs did not enhance the earnings capacity of the building).

The extension was finished and brought into use on 1 July 2009. The new extension is to be depreciated in line with the existing building at 2% per annum straight line basis.

Delivery Vans

Delivery Van C
On 1 February 2009, delivery van C was crashed and completely written off. The van was sold to a scrap yard for £/€900. The insurance company paid out £/€20,500 in compensation.

Delivery Van B
On 1 September 2009, delivery van B was traded in against a new delivery van, delivery van D. A trade in allowance of £/€12,000 was achieved on delivery van B and used in part payment of delivery van D. The total cost of delivery van D was £/€35,000 and the balance due was paid immediately by cheque.

Delivery vans are depreciated by 20% per annum on a straight line basis.

The depreciation policy of B. Martin is to charge depreciation from the month of purchase to month of sale.

QUESTION 4 CONTINUES ON THE NEXT PAGE

QUESTION 4 *(Cont'd)*

You are required to prepare the following T accounts for the year ended 31 December 2009:

a) Premises: cost account.

3 Marks

b) Premises: accumulated depreciation account.

2 Marks

c) Delivery van: cost account.

3 Marks

d) Delivery van: accumulated depreciation account.

7 Marks

e) Disposal account delivery van C.

3 Marks

f) Disposal account delivery van B.

2 Marks

Total 20 Marks

QUESTION 5

Part A
Accounting is about accountability. For both a public limited company and a charity provide an example of the following:

i. An organisational objective.
ii. Whom the organisation is accountable to and why.

4 Marks

Part B
Provide a definition of a public limited company and a private limited company.

4 Marks

Part C
There are many advantages to carrying out a business through the medium of a private limited company. Explain three of these advantages.

6 Marks

Part D
Some private limited companies choose to become public limited companies. There are both advantages and disadvantages to this. Outline in brief one advantage and two disadvantages for a private limited company choosing to become a public limited company.

6 Marks
Total 20 Marks

QUESTION 6

You are a trainee accounting technician in a small accounting practice. The partner of the practice has given you the following information from three small sole traders and has asked you to use incomplete records techniques to calculate the missing information as stated below:

Part A

Sole trader A did not maintain proper books and records for the year to 31 December 2009. He is however in a position to provide you with the following information all relating to balances as at 1 January 2009:

	£/€
Shop premises (NBV)	114,200
Shop fixtures and fittings (NBV)	49,100
Payables	46,790
Shop inventory	24,750
VAT liability	7,130
Accruals – light and heat	4,210
Prepayments – insurance	9,880
Cash floats	970
Bank balance (funds lodged with bank)	7,940
Bank loan	15,000
Sundry receivables	1,010

You are required to:

i. Calculate Sole trader A's opening proprietor's capital as at 1 January 2009.

4 Marks

ii. In brief, outline your understanding of why the incomplete record technique used in part (i) will give the proprietor's opening capital.

3 Marks

QUESTION 6 CONTINUES ON THE NEXT PAGE

QUESTION 6 *(Cont'd)*

Part B

Sole trader B did not maintain proper books and records for the year to 31 December 2009. He is only able to provide you with the following information:

	£/€
Inventory as at 1 January 2009	51,400
Purchases for 2009	347,500
Closing inventory as at 31 December 2009	49,600
Standard gross profit margin	20%

You are required to complete the trading account for the year ended 31 December 2009.

6 Marks

Part C

Sole trader C did not maintain proper books and records for the year to 31 December 2009. He is however able to provide you with the following information (all relating to credit purchases):

	£/€
Opening payables credit balance	112,400
Opening payables debit balance	2,130
Amounts paid to suppliers	546,210
Discounts received	7,520
Interest charged by payables for slow payment	1,430
Closing payables credit balance	97,090
Closing payables debit balance	3,450

You are required to calculate credit purchases for the year to 31 December 2009.

7 Marks

Total 20 Marks

●

1st Year Examination: May 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

S. Burke
Income statement for the year ended 31 December 2009

		€	€
Sales			717,500
Sales returns			(13,240)
Net sales			704,260
Cost of sales			
Opening inventory		42,190	
Purchases	422,300		
Purchases returns	(9,170)	413,130	
Carriage inwards		4,750	
		460,070	
Less closing inventory		(37,255)	
Cost of sales			(422,815)
Gross Profit			281,445
Discount received			7,770
Less Expenses			
Carriage outwards		4,520	
Rent		45,750	
Insurance		16,700	
Interest		14,025	
Wages and salaries		39,070	
Discount allowed		3,120	
Telephone and internet		7,800	
Depreciation of fixtures and fittings		77,085	
Irrecoverable debts		5,930	
Increase in allowance for receivables		3,013	
Light and heat		8,790	
Total expenses			(225,803)
Net Profit			63,412

Solution One *(Cont'd)*

S. Burke
Statement of financial position as at 31 December 2009

	2009 €	2009 €	2009 €
Non-current assets			
Fixtures and fittings	578,000	(141,185)	436,815
			436,815
Current assets			
Closing inventory		37,255	
Receivables		84,987	
Prepayments		11,250	
			133,492
Total assets			**570,307**
Equity and Liabilities			
Equity			
Capital		114,250	
Profit for 2009		63,412	
Accumulated profits		177,662	
Drawings		(19,600)	
			158,062
Non-current liabilities			
Term loan			280,500
Current liabilities			
Payables		84,150	
Bank overdraft		31,770	
VAT		6,900	
Accruals		8,925	
			131,745
Total Equity and Liabilities			**570,307**

Workings 1
Inventories working

		€		€
1,250	*	5.00	=	6,250
7,860	*	3.15	=	24,759
3,470	*	1.80	=	6,246
				37,255

Solution One *(Cont'd)*

Workings 2

	€
Receivables as per TB	98,180
Cash receipts as per W2	(3,750)
	94,430
Allowance for receivables 10%	9,443
Opening allowance for receivables	(6,430)
Increase in allowance for receivables	3,013

Workings 3

	€
Cost of F&F	578,000
Accumulated depreciation F&F	(64,100)
	513,900
Depreciation 15%	77,085

Workings 4

	€
Bank as per TB	21,020
	(3,750)
	14,500
Adjusted balance	31,770

	€
VAT as per TB	21,400
	(14,500)
	6,900

Workings 5

	€
45,000/12*3	11,250
Rent as per TB	57,000
Prepayment	(11,250)
	45,750

Workings 6

	€
Telephone as per TB	6,900
	900
	7,800

	€
Loan	280,500
	*5%
	14,025
Portion paid	(6,000)
Accrual	8,025

Solution Two

Part i

Sales Day Book

Date	Analysis	Total	Net	VAT
		€	€	€
01-Dec	B. Bally	1,701	1,400	301
04-Dec	A. Acorn	8,748	7,200	1,548
11-Dec	D. Davin	18,225	15,000	3,225
		28,674	23,600	5,074

Sales Returns Day Book

Date	Analysis	Total	Net	VAT
		€	€	€
9-Dec	A. Acorn	2,673	2,200	473
15-Dec	B. Bally	6,804	5,600	1,204
		9,477	7,800	1,677

Cheque Payments Book

Date	Analysis	Total	Receivables
		€	€
13-Dec	C. Corry	1,740	1,740
		1,740	1,740

Cash Receipts & Lodgements book

Date	Analysis	Total	Receivables
		€	€
22-Dec	A. Acorn	31,240	31,240
22-Dec	B. Bally	5,000	5,000
22-Dec	D. Davin	2,430	2,430
		38,670	38,670

Part ii

Receivables Control A/C

Balance b/d	76,360	Balance b/d	1,740
Sales	28,674	Sales returns	9,477
Refunds	1,740	Cash receipts books	38,670
		Balance c/d	56,887
	106,774		106,774
Balance b/d	56,887		

Part iii

Acorn A/C

Balance b/d	54,210	Sales Returns	2,673
Sales	8,748	Cash receipts books	31,240
		Balance c/d	29,045
	62,958		62,958
Balance b/d	29,045		

Solution Two *(Cont'd)*

Bally A/C

Balance b/d	13,250	Sales Returns	6,804
Sales	1,701	Cash receipts books	5,000
		Balance c/d	3,147
	14,951		14,951
Balance b/d	3,147		

Corry A/C

Cheque payments	1,740	Balance b/d	1,740
	1,740		1,740

Davin A/C

Balance b/d	8,900		
Sales	18,225	Cash receipts books	2,430
		Balance c/d	24,695
	27,125		27,125
Balance b/d	24,695		

Part iv

	€
Acorn	29,045
Bally	3,147
Corry	-
Davin	24,695
	56,887

	€
Balance as per listing	56,887
Balance as per control account	56,887
Difference	-

Solution Three

Part i

The regular preparation of bank reconciliations is important for the following reasons:

i. Identification of errors, such errors may have been made either by the bank, the company or both. For example a business may have omitted to post receipts from receivables;
ii. Items such as bank interest, charges, standing orders, direct debits and dishonoured cheques. These will be known by the bank but not identified by a business until it receives the bank statement and prepares the bank reconciliation.

Part ii

Bank Account

		€		€
1/4/10	Balance	518	Cheque 77	56
	Error in SO	90	Cheque 78	174
	Cheque 75	18	Error in Lodgement	100
	Credit transfer	11,550	Direct debit	410
			Dishonoured cheque	1,250
			Bank charges	192
			Balance c/d	9,994
		12,176		12,176
1/4/10	Balance b/d	9,994		

Part iii

Bank Reconciliation as at 31 April 2010

			€
Balance per bank			9,037
Add outstanding Lodgement			15,980
Less O/S Cheques			
	73	11,223	
	79	3,570	
	80	230	(15,023)
Balance			9,994

Proof of Opening Balance (Students are not required to produce this)

	€
Opening balance per bank	(5,820)
Add outstanding Lodgement	8,750
Less O/S Cheques	
71	(5,420)
72	(310)
Restated balance as per bank	(2,800)
Opening balance as per Bank T account	(2,800)
Difference	-

Solution Four

Premises Cost Account

Date	Details	€	Date	Details	€
1/1/09	Balance c/d	540,000			
1/7/09	Additions	177,500	31/12/09	Balance	717,500
		717,500			717,500
1/1/2010	Balance	717,500			

Note: all of the costs listed below can be capitalised and included within the cost of the non-current asset. General repairs cannot be capitalised as they are an item of revenue expenditure – non capital in nature.

	€
Site preparation	20,500
Building materials	79,000
Contract labour	61,000
Architect and legal fees	17,000
	177,500

Premises Accumulated Depreciation Account

Date	Details	€	Date	Details	€
			1/1/09	Balance c/d	113,400
31/12/09	Balance b/d	125,975	31/12/09	Income statement	12,575
		125,975			125,975
			1/1/2010	Balance c/d	125,975

Premises depreciation calculation:

	€						**€**
Existing	540,000	*	2%	*	1	=	10,800
Addition	177,500	*	2%	*	6/12	=	1,775
							12,575

Delivery Vans

Delivery Vans Cost Account

Date	Details	€	Date	Details	€
1/1/09	Van A	31,500	1/2/09	Disposal C	40,000
1/1/09	Van B	26,500	1/9/09	Disposal B	26,500
1/1/09	Van C	40,000			
1/1/09	Van D	35,000	31/12/09	Balance b/d	66,500
		133,000			133,000
1/1/2010	Balance c/d	66,500			

Solution Four *(Cont'd)*

Delivery Vans Accumulated Depreciation Account

Date	Details	€	Date	Details	€
	Disposal C	14,667	1/1/09	Van A	28,350
	Disposal B	18,108	1/1/09	Van B	14,575
			1/1/09	Van C	14,000
31/12/09	Balance	33,833	31/12/09	Income statement	9,683
		66,608			66,608
			1/1/2010	Balance	33,833

Delivery Van C Disposal Account

Date	Details	€	Date	Details	€
1/2/09	Cost	40,000	1/2/09	Accumulated Depreciation	14,667
			1/2/09	Insurance	20,500
			1/2/09	Scrap	900
			1/2/09	Income statement	3,933
		40,000			40,000

Delivery Van B Disposal Account

Date	Details	€	Date	Details	€
1/9/09	Cost	26,500	1/9/09	Accumulated Depreciation	18,108
1/9/09	Income statement	3,608	1/9/09	Trade in	12,000
		30,108			30,108

Solution Four *(Cont'd)*

Workings 1 – Opening Accumulated Depreciation Workings

Van A	=	31,500
		*20%
		6,300 p.a.

Van A		€
Six months in 2004	=	3,150
2005	=	6,300
2006	=	6,300
2007	=	6,300
2008	=	6,300
		28,350

Van B	=	26,500
		*20%
		5,300 p.a.

Van B		€
Nine months in 2006	=	3,975
2007	=	5,300
2008	=	5,300
		14,575

Van C	=	40,000
		*20%
		8,000 p.a.

Van C		€
Nine months in 2007	=	6,000
2008	=	8,000
		14,000

Workings 2 – Depreciation for 2009

		€
Van A - after six month fully depreciated	=	3,150
Van B – eight months	=	3,533
Van C – one month	=	667
Van D – four months	=	2,333
		9,683

Van D	=	35,000
		*20%
		7,000 p.a.

Solution Five

Part A

Organisation	Objective	Accountable to
Public limited company	Making a profit or creation of shareholder wealth	Shareholders
Charities	Achievement of charitable aims or maximise spending on activities	Charity trustees or Donor

Part B

Both public and private limited companies are entities the owners of which have limited liability. This means that the liability of the owners/shareholders is limited to the capital invested in the entity and the personal assets of shareholders for example are not at risk should the company go into bankruptcy for example.

The main difference between public and private limited companies is that public limited companies sell their shares to the general public on the stock exchange. Therefore these entities tend to be large as in theory anyone can become a shareholder. Ownership of private limited companies is limited. Shares in private limited companies generally are not available for sale to the general public. Private limited companies tend to have a small group of shareholders who in some cases can be family members.

Part C

Advantages of a Limited Company

- All owners (shareholders) enjoy limited liability;
- Limited companies because of their size can raise large quantities of capital. Such capital requirements are required for expansion abroad for example. Thus limited companies tend to be better positioned to take advantage of business opportunities which may arise when compared to a sole trader business;
- The burden of the day-to-day running of the company is delegated;
- In the Republic of Ireland the current favourable corporation tax rate versus personal income tax rates and the consequential shielding of business profits.

(Any two of these advantages)
(Any other reasonable advantage will also be accepted)

Part D

The advantages of being a public limited company (plc) are:
Shares in private limited companies generally are not available for sale to the general public. Private limited companies tend to have a small group of shareholders who in some cases can be family members. The limited number of shareholders tends to mean that the sources of finance available to private limited companies are more restrictive than public limited companies.

A shareholder in a public limited company can easily sell his/her holding in one company and reinvest in another public limited company if he/she so chooses. This flexibility allows shareholders to manage their portfolio efficiently.
(Any one of these advantages)
(Any other reasonable advantage will also be accepted)

Solution Five *(Cont'd)*

The disadvantages of being a public limited company (plc) are:

- Costly and complicated to set up as a plc – need to employee specialist bankers and lawyers to help organise the converting to the plc.
- Certain financial information must be available for everyone, competitors and customers included (would you want them to know how much profit you are making?).
- Shareholders in public companies expect a steady stream of income from dividends, which might mean that the business has to concentrate on short term objectives of creating profit, whereas it might be better to work on longer term objectives, such as growth and investment.
- Threat of takeover, because another company can buy up a large number of shares because they are traded publicly (can be sold to anyone). If they buy enough, they can then persuade other shareholders to join with them to vote in a new management team.

(Any two of these disadvantages)
(Any other reasonable disadvantage will also be accepted)

Solution Six

Part A

i

	2009 €	**2009 €**
Assets		
Premises	114,200	
Fixtures and fittings	49,100	
Inventory	24,750	
Prepayments	9,880	
Cash	970	
Bank	7,940	
Receivables	1,010	
		207,850
Liabilities		
Payables	46,790	
Accruals	7,130	
VAT	4,210	
Term loan	15,000	
		(73,130)
Proprietors capital		134,720

ii

The incomplete records technique used above relies upon the statement of financial position balancing. The statement of financial position will always balance because the debit entries will always equal the credit entries. This is the case due to the dual aspect concept. The dual aspect concept states that every transaction should have a two sided effect, one debit, one credit and these must have the same value. The dual aspect concepts ensures that at any point in time the assets of an entity equal the owner's capital and outsider's liabilities. In the question above all the assets (debit balances) of the sole trader were known and all of the liabilities (credit balances) with the exception of the proprietor's capital were known. Therefore the difference between the total assets and the total liabilities must equal the proprietor's capital.

Part B

	€	**€**
Sales		436,625
Cost of sales		
Opening inventory	51,400	
Purchases	347,500	
	398,900	
Less closing inventory	(49,600)	
Cost of sales (80%)		(349,300)
Gross Profit (20%)		87,325

Solution Six *(Cont'd)*

Part C

Payables A/C

	€		€
Opening balance b/d	2,130	Balance b/d	112,400
Cheque payments book	546,210	Purchases Book	535,670
Discounts received	7,520	Interest	1,430
Balance c/d	97,090	Balance c/d	3,450
	652,950		652,950
Balance b/d	3,450	Balance b/d	97,090

1st Year Examination: May 2010

Financial Accounting I

Examiner's Report

General
The overall standard of answers was good. Most candidates answered the required number of questions, however in some cases candidates failed to attempt the required number of questions and struggled to achieve an overall passing mark as a result. The general presentation of scripts tended to be good however some candidates are presented scripts with very poor handwriting and not filing questions parts in sequence. Rough work was not included in some scripts and candidates lost marks because of this, rough work should be included either at the start or end of each question filed.

Question 1
The preparation of income statement and statement of financial position question was generally well answered. However the following were commonly made mistakes:

- Many candidates failed to include the annual depreciation charge as an expense in the income statement having correctly calculating the figure in workings. Some candidates included the annual depreciation charge in the statement of financial position as opposed to accumulated depreciation as at 31 December 2009.
- Many candidates did not treat the un-accrued interest on the loan correctly; many candidates either did not recognise the adjustment required for interest not paid at year-end or incorrectly added the total annual interest to the interest figure in the trial balance.
- Many candidates did not calculate closing inventory correctly, many calculating NRV or cost on the entire inventory rather than looking at each inventory item individually.
- Many candidates did not account for the increase in the allowance for receivables correctly both in the income statement and the statement of financial position.
- A number of candidates did not understand the treatment of VAT or drawings and included these figures as expenses in the income statement.
- Many candidates did not recognise that the bank balance was in an overdraft position and failed to treat it accordingly.

Question 2
This question was very well answered by most candidates. However the following were commonly made mistakes:

- Some candidates were not familiar with all of the books of original entry.
- Some candidates did not enter transactions on the correct side of the receivable's individual T accounts, while others omitted the opening balances.
- A number of candidates included sales and sales returns in the receivable's individual accounts exclusive of VAT.
- A significant number of candidates did not complete each section of the question particularly part D.

Question 3

This question was generally well answered, with most candidates achieving a passing mark for the question. However the following were commonly made mistakes:

- Some candidates did not give a reason for the preparation of bank reconciliations AND an appropriate example.
- Some candidates used the incorrect balance at the start of the corrected bank T account and the bank reconciliation.
- Some candidates were very confused in the preparation of the bank reconciliation.

Question 4

This question was attempted by approximately 50% of candidates. Candidates tended to attempt Question 6 and either Question 4 or Question 5. A significant variance was noted in the standard of answers among candidates. The following were commonly made mistakes:

- Some candidates included the value of general repairs in the capitalised value of the building addition in error.
- Some candidates had trouble calculating the depreciation on motor vehicles correctly – not time apportioning the depreciation correctly in the year of acquisition or disposal.
- Some candidates recorded accumulated depreciation of buildings and motor vehicles on different sides of the T accounts.
- Some candidates wasted time preparing T accounts back to 2004 when only the T accounts for the year to 31 December 2009 were required in the question.

Question 5

This question was generally well answered, with most candidates achieving a passing mark for the question. However the following were commonly made mistakes:

- Some candidates did not manage their time appropriately. Presenting a much more detailed answer for Part A, worth 4 marks versus Part C and Part D, worth six marks each.
- Some candidates were not able to provide a definition of a public limited company versus a private limited company. Some candidates stated that a public limited company is owed by the government in error.
- Some candidates did not think through their answers to Part D, for example some candidates stated that an advantage was limited liability in error as both private and public limited companies enjoy limited liability. Other candidates did not fully explain advantages/disadvantages. For example some candidates stated that an advantage of a private limited company choosing to become a public limited company related to public limited companies being able to sell shares to the public on stock markets. A full answer here would be to state that this enables the company to raise more capital.

Question 6

This question was generally well answered, with most candidates achieving a passing mark for the question. However the following were commonly made mistakes:

- Some candidates wasted time presenting Part A of the question in full statement of financial position format.
- Most candidates did not explain the double entry impact on the accounting equation in Part A.
- Most candidates calculated the cost of sales correctly, but simply applied 20% to this to calculate profit in Part B.
- Some candidates included interest charged and discount received on the incorrect side of the T account and did not understand how to treat the closing balances given in Part C.