
Financial Accounting

1st Year Examination

May 2013

Paper, Solutions & Examiner's Report



NOTES TO USERS ABOUT THESE SOLUTIONS

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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: Summer 2013
Paper : FINANCIAL ACCOUNTING
Tuesday 14th May 2013 - 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 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 are 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, €, 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.

Note:

This paper uses both the language of International Accounting Standards (I.A.S's) and Financial Reporting Standards (F.R.S's) where appropriate (e.g. Receivables/Debtors). Examinees are permitted to use either terminology when preparing financial statements but the use of the language of the International Accounting Standards (e.g. Receivables rather than Debtors) is preferred.

SECTION A

Answer ALL THREE QUESTIONS (Compulsory) in this Section

QUESTION 1 (Compulsory)

The following trial balance was extracted from the books of S. Sesame, a sole trader, on 31 December 2012:

	Debit €£	Credit €£
Land and buildings	320,000	
Motor vehicles	45,000	
Accumulated depreciation on motor vehicles		17,580
Fixtures and fittings	23,750	
Accumulated depreciation on fixtures and fittings		5,250
Inventory as at 1/1/2012	18,220	
Receivables and payables	82,750	91,560
Cash balances	800	
Bank		2,140
PRSI/NIC liability		980
Interest charged by supplier on overdue balances	340	
Sales and purchases	285,050	595,710
Returns	19,110	8,220
Discounts	740	910
Carriage inwards	700	
Advertising and media costs	2,770	
Light and heat	2,410	
Telephone and internet	3,140	
Insurance	15,900	
Rates, water charges and refuse	6,770	
Wages and salaries	62,170	
Employers PRSI/NIC costs	6,100	
6% long term bank loan		71,750
Long term loan interest	2,150	
Irrecoverable debts	3,120	
Drawings	7,120	
Accumulated profits/losses	21,550	
Capital		135,560
	929,660	929,660

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

- The inventory count as at 31 December 2012 showed closing inventory valued at €£21,210. Included in this figure are inventory items valued at their original cost price of €£3,950. It will cost €£145 to repair these items, after which they can be sold for €£4,200 less selling costs of €£175.
- During 2012 S. Sesame took the following for personal use:
 - €£1,750 in inventory items;
 - €£2,220 from the bank.

In addition, one quarter of the insurance costs above relate to S. Sesame's personal insurance.

QUESTION 1 (*Cont'd*)

3. A delivery of Product Beta costing €€1,200 was dispatched to a customer on 30 December 2012. These goods were correctly not included in the inventory count on 31 December 2012. The sales invoice associated with the sale was not posted to the books and records of S. Sesame as at 31 December 2012. S. Sesame has a standard mark-up of 15% on Product Beta.
4. €£750 of advertising and media costs included in the trial balance above are prepaid for 2013.
5. Included in motor vehicles is a delivery van which originally cost €£15,000. Accumulated depreciation on the delivery van as at 1 January 2012 was €£7,450. On 29 December 2012 the delivery van was crashed and written off. The insurance company has indicated that €£6,545 will be paid out on the insurance policy. S. Sesame received the cheque from the insurance company for €£6,545 in January 2013. The delivery van was not replaced.
(*See point 6 below for the depreciation policy of S. Sesame.*)
6. Allowance to be made for depreciation as follows:
- | | |
|-----------------------|-----------------------------|
| Land and buildings | 2% straight line method |
| Motor vehicles | 10% straight line method |
| Fixtures and fittings | 10% reducing balance method |
- (*Depreciation should be calculated to the nearest whole number. S. Sesame charges a full year of depreciation in the year of purchase and none in the year of disposal.*)

You are required to prepare:

- a) The statement of profit and loss for the year ended 31 December 2012.
- b) The statement of financial position as at that date.

11 Marks**2 Marks**
Total 20 Marks

QUESTION 2 (Compulsory)

The following information relates to the receivables and payables of S. Sam, a sole trader, for the year ended 31 December 2012:

Extract from the books as at 1 January 2012:

	€£
Receivables' ledger debit balances	110,000 Dr
Receivables' ledger credit balances	3,100 Cr
Payables' ledger credit balances	98,000 Cr
Payables' ledger debit balances	700 Dr

Transactions for the year ended 31 December 2012:

	€£
Sales (90% on credit)	2,150,000
Sales returns (95% on credit)	95,000
Credit purchases	1,200,000
Cash purchases	22,420
Purchases returns all on credit	32,000
Contra entry between receivables and payables balances	11,190
Cash received from credit customers	1,550,000
Discounts allowed	17,200
Discounts received	21,300
Irrecoverable debts written off	32,560
Interest charged by a payable for the late payment of a balance due	950
Refunds paid to receivables	2,230
Payments to payables	1,019,000
Dishonoured cheque received from receivables (included in the amounts received from receivables above)	7,120
Opening allowance for receivables	36,750

Additional Information

- An opening receivable's balance of €£13,500 was omitted from the opening receivables debit balances as at 1 January 2012.
- At 31 December 2012 the total of the credit balances in the receivables' ledger was €£17,000 and the total of the debit balances in the payables' ledger was €£9,120.

You are required to:

- A. Prepare the receivables and payables control accounts for S Sam for the year ended 31 December 2012.
16 Marks
- B. In report format outline two advantages of preparing control accounts.

4 Marks
Total 20 Marks

QUESTION 3 (Compulsory)**Part A**

The following information is available for S. Simon for the year ended 31 July 2012:

S. Simon has been unable to purchase premises from which to do business and therefore rents two properties: a showroom and a warehouse. Details of rent in advance and rent in arrears at the beginning and end of the year are as follows:

	31 July 2011	31 July 2012
	€£	€£
Rent paid in advance, warehouse	4,000	?
Rent in arrears, showroom (all subsequently paid)	2,500	?

Warehouse

Rent for the warehouse is payable in advance on 1 January, 1 April, 1 July and 1 October. The rent has remained constant for several years at €£2,000 per month. €£6,000 was paid on 1 July 2012 for the quarter July to September 2012.

Showroom

Rent for the showroom is paid monthly in arrears on the first day of the subsequent month. For example rent for January 2012 is due for payment on 1 February 2012. Rent paid for the showroom was decreased during the year ended 31 July 2012 as follows:

Rent payable for the year ended 31 December 2011 was €£30,000;

Rent payable for the year ended 31 December 2012 was reduced to €£27,000.

S. Simon paid €£28,500 for rent on the showroom in the year ended 31 July 2012.

You are required to:

- i. Calculate the figure for the rent expenses for inclusion in the Statement of Profit and Loss of S. Simon for the year to 31 July 2012; **2 Marks**
- ii. Prepare the rent expense T account for S. Simon for the year to 31 July 2012. **6 Marks**

Part B

The following information is available for sole trader G. Ginger for the year ended 31 December 2012:

	€£
Draft receivables debit balances as at 31 December 2012	420,950
Draft irrecoverable debts written off during the year	42,750
Irrecoverable debts previously written off recovered during the year	2,750
Allowances for receivables as at 1 January 2012	32,100

As at 31 December 2012 G. Ginger reviewed her receivables listing and decided the following (none of these adjustments have been reflected in the draft figures above):

- An additional €£14,410 of debts should be written off as irrecoverable;
- G. Ginger considers that €£9,820 of debts should be made the subject of a specific allowance;
- The **general** allowance for receivables should be set at 5% of the remaining receivable balances.

Question 3 is continued on the next page

QUESTION 3 (*Cont'd*)**You are required to:**

- i. Prepare the following T accounts for G. Ginger for the year ended 31 December 2012:
- a. The allowance for receivables T account; **5 Marks**
 - b. Irrecoverable debts expense T account; **2 Marks**
 - c. Irrecoverable debts recovered T account. **1 Mark**
- ii. Prepare appropriate Statement of Profit and Loss and Statement of Financial Position extracts to illustrate how the information above would be presented in the financial statements of G. Ginger for the year ended 31 December 2012.

4 Marks**Total 20 Marks**

Answer any TWO of the three questions in this Section

QUESTION 4

The assets and liabilities of Racket Tennis Club as at 1 January 2012 and the 31 December 2012 include the following:

	1 January 2012	31 December 2012
	€£	€£
Tennis court and clubhouse	170,050	170,050
Fixtures and fittings – cost	32,740	32,740
Fixtures and fittings – accumulated depreciation	9,630	?
5% long term loan	80,000	?
Bar inventory	4,740	3,870
Bar payables	8,850	9,740
Insurance prepaid	3,200	4,100
Annual subscriptions in arrears	12,060	13,770
Annual subscriptions in advance	7,750	5,980
Bar wages due	1,230	1,100
Life subscriptions fund	90,000	?

The bank T account is as follows:

Bank Account			
	€£		€£
Balance b/d (1/1/2012)	14,120	Advertising for dinner dance	900
Members subscriptions (all annual)	87,500	General repairs	740
Bar receipts	84,120	Payments to bar payables	34,620
Dinner dance ticket sales	14,410	Payments for bar wages	32,750
Fees from non-members	4,230	Loan interest	2,500
		Light and heat	1,110
		Repayment of loan principle	6,000
		Insurance	8,000
		Catering for dinner dance	4,120
		General expenses for dinner dance	3,140
		Bank charges	50
		Balance c/d	110,450
	204,380		204,380
Balance b/d (1/1/13)	110,450		

Additional Information

- The life subscription fund relates to a once off deal that was offered to members in 2011 to help part finance an extension to the clubhouse. The value of the life membership fund originally was €£100,000 and is being credited to the income and expenditure account over 10 years.
- Fixtures and fittings are being depreciated at 10% p.a. on the reducing balance method. The tennis court and clubhouse are not depreciated.

You are required to:

- i. Calculate the accumulated fund as at 1 January 2012. 3 Marks
- ii. Prepare the Bar Trading account for the year ended 31 December 2012. 5 Marks
- iii. Calculate the profit/loss of the dinner dance. 2 Marks
- iv. Prepare the Income and Expenditure Account for the year ended 31 December 2012.

10 Marks
Total 20 Marks

QUESTION 5

P. Poppy is a sole trader with a small business. The trial balance extracted as at 31 December 2012 failed to agree. The credits exceeded the debits by €€3,740.

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

1. No entry had been made for expenses paid in cash from the petty cash tin, the expenses were as follows:

Flowers	€€55
Stamps	€€22
Cake for retirement party	€€41
2. Discounts received of €€110 were debited to discounts allowed. The entry in the payable's personal account was correct.
3. Sales returns of €€980 was treated correctly in the customer's account and credited to the sales returns account as €€890.
4. The total in the purchases day book of €€17,150 was debited to the purchases returns T account as €€17,150.
5. The bookkeeper forgot to post the wages and salaries journal for December 2012. No payment has yet been made to employees or the Revenue Authority. The relevant figures are as follows:

Wages and salary costs (gross)	€€10,150
Employers PRSI/NIC	€€900
Employee PRSI/NIC and income taxes	€€3,045
6. A sales invoice of €€1,050 was entered in the sales day book as €€950.
7. A payment for building repairs of €€1,045 was credited to the Buildings at Cost T account and credited to the cash account.

(Ignore the effects 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 assuming that the loss before these adjustments was €€41,870. **4 Marks**

Total 20 Marks

QUESTION 6**Part A**

(i)

Four qualitative characteristics of financial accounting information have been identified. You are required to prepare a brief note explaining each of these characteristics.

8 Marks

(ii)

Conflicts exist between some of the qualitative characteristics of financial accounting information. Outline your understanding of one of these conflicts.

3 Marks**Part B**

Outline your understanding of the external annual audit and why conducting one is considered important for many limited companies.

4 Marks**Part C**

Outline your understanding of the importance of ethics for the accounting profession.

3 Marks**Part D**

Outline your understanding of whistle blowing and the challenges faced by whistle blowers.

2 Marks**Total 20 Marks**

1st Year Examination: May 2013

Financial Accounting

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. Sesame

Statement of profit and loss for the year ended 31 December 2012

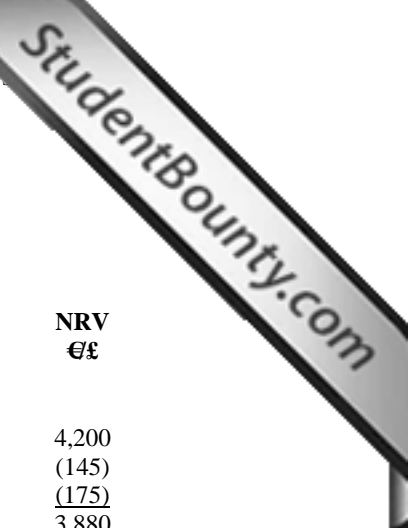
	€£	€£	Marks Allocated
Sales		597,090	1 Mark
Sales returns		<u>(19,110)</u>	½ Mark
Net sales		577,980	
Cost of sales			
Opening inventory	18,220		¼ Mark
Purchases	283,300		¾ Mark
Purchases returns	<u>(8,220)</u>	275,080	½ Mark
Carriage inwards		<u>700</u>	¼ Mark
		294,000	
Less closing inventory	<u>(21,140)</u>		1 ½ Marks
Cost of sales		<u>(272,860)</u>	
Gross Profit		305,120	
Discount received		910	½ Mark
<u>Less Expenses</u>			
Interest charged by suppliers	340		½ Mark
Advertising and media costs	2,020		½ Mark
Insurance	11,925		¼ Mark
Rates and water charges	6,770		
Wages and salaries	62,170		
Employers PRSI/NIC Costs	6,100		½ Mark
Discount allowed	740		½ Mark
Telephone and internet	3,140		
Depreciation of land buildings	6,400		½ Mark
Depreciation of fixtures and fittings	1,850		½ Mark
Depreciation of motor vehicles	3,000		½ Mark
Loss on crashed motor vehicle	1,005		½ Mark
Irrecoverable debts	3,120		½ Mark
Interest	4,305		½ Mark
Light and heat	<u>2,410</u>		
Total expenses		<u>(115,295)</u>	
Operating profit		<u>190,735</u>	

Solution One (Cont'd)

S. Sesame

Statement of financial position as at 31 December 2012

	€£	€£	€£	Marks Allocated
Non-current assets				½ Mark
Land and buildings	320,000	(6,400)	313,600	
Motor vehicles	30,000	(13,130)	16,870	
Fixtures and fittings	23,750	(7,100)	<u>16,650</u>	½ Mark
			347,120	
Current assets				
Closing inventory		21,140		
Receivables		84,130		¾ Mark
Insurance receivable		6,545		½ Mark
Prepayments		750		½ Mark
Cash		<u>800</u>		
			113,365	
Total assets			<u>460,485</u>	
Equity and Liabilities				
Equity				
Capital		135,560		½ Mark
Accumulated losses		(21,550)		1 Mark
Profits 2012		<u>190,735</u>		1 Mark
Accumulated profits		304,745		
Drawings		<u>(15,065)</u>		1 Mark
			289,680	
Non-current liabilities			71,750	½ Mark
Current liabilities				
Payables		91,560		½ Mark
Bank O/D		4,360		¾ Mark
Interest accrual		2,155		½ Mark
PRSI/NIC		<u>980</u>		½ Mark
			99,055	
Total Equity and Liabilities			<u>460,485</u>	



Workings 1

Closing inventory	21,210
Excess of cost over NRV	<u>(70)</u>
Restated closing inventory	21,140

Damaged inventory	Cost	NRV
	€£	€£
Cost	3,950	
Sales price		4,200
Repairs		<u>(145)</u>
Sales costs		<u>(175)</u>
		3,880

Excess of cost over NRV = €£70

Workings 2

	€£
Drawings as per TB	7,120
Drawings of inventory	1,750
Drawings of bank	2,220
Drawings of insurance	<u>3,975</u>
Restated drawings	15,065

	€£
Bank balance as per TB	(2,140)
Drawings	<u>(2,220)</u>
Restated bank	(4,360)

	€£
Insurance as per TB	15,900
Drawings	<u>(3,975)</u>
Restated insurance	11,925

	€£
Purchases as per TB	285,050
Drawings	<u>(1,750)</u>
Restated purchases	283,300

Workings 3

	€£
Cost of Product Beta	1,200
Mark-up 15%	<u>15%</u>
Mark-up	180
Sales price of goods	1,380

	€£
Sales as per TB	595,710
Unrecorded sales	<u>1,380</u>
Restated sales	597,090

	€£
Receivables as per TB	82,750
Unrecorded sales	<u>1,380</u>
Restated receivables	84,130

Solution One (Cont'd)Workings 4

	€£
Advertising and media costs as per TB	2,770
Prepayments	<u>(750)</u>
Restated advertising and media costs	2,020

Workings 5

	€£
Crashed delivery van	15,000
Accumulated depreciation at point of crash	<u>(7,450)</u>
NBV at point of sale	7,550
Insurance	<u>(6,545)</u>
Loss on sale	1,005

Workings 6

<u>Land and buildings</u>	€£
Cost of land and buildings	320,000
Depreciation 2%	6,400

Motor Vehicles

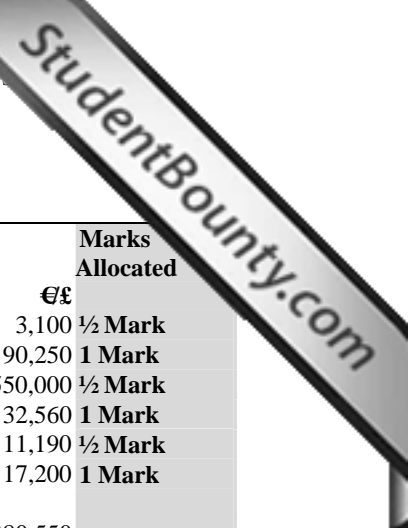
	€£
Motor vehicles	45,000
Disposal	<u>(15,000)</u>
	30,000
Deprecation	<u>10%</u>
Annual depreciation	3,000

<u>Fixtures and Fittings</u>	€£
Cost	23,750
Accumulated depreciation	<u>(5,250)</u>
	18,500
Depreciation 10%	1,850

Workings 7

Loan

	€£
Principle value of loan	71,750
6% interest rate	<u>6%</u>
Annual interest	4,305
Interest paid	<u>(2,150)</u>
Interest Accrual	2,155



Part A

Receivables Control A/C

Marks Allocated		€£		€£	Marks Allocated
½ Mark	Balance b/d	110,000	Balance b/d	3,100	½ Mark
1 Mark	Sales	1,935,000	Sales returns	90,250	1 Mark
1 Mark	Dishonoured cheque	7,120	Cash received	1,550,000	½ Mark
1 Mark	Refunds	2,230	Irrecoverable debts	32,560	1 Mark
1 Mark	Error in opening receivables	13,500	Contra	11,190	½ Mark
			Discounts allowed	17,200	1 Mark
1 Mark	Balance c/d	17,000	Balance c/d	380,550	
		<u>2,084,850</u>		<u>2,084,850</u>	
	Balance b/d	380,550	Balance b/d	17,000	

Payables Control A/C

		€£		€£	
½ Mark	Balance b/d	700	Balance b/d	98,000	½ Mark
½ Mark	Purchases returns	32,000	Purchases	1,200,000	½ Mark
½ Mark	Paid to payables	1,019,000	Interest charged	950	1 Mark
1 Mark	Discounts received	21,300			
½ Mark	Contra	11,190			
	Balance c/d	223,880	Balance c/d	9,120	1 Mark
		<u>1,308,070</u>		<u>1,308,070</u>	
	Balance b/d	9,120	Balance b/d	223,880	

Part B

To: Whom it May Concern
From: An Accounting Technician
Subject: Advantages of Preparing Control Accounts
Date: 14/5/2013

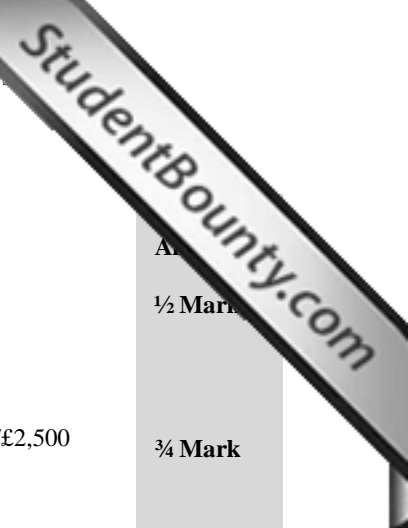
I have been asked to prepare a report outlining two advantages of preparing control accounts. The advantages include the following:

- The overall purpose of the control account is to keep the nominal ledger free of details, yet have the correct balance for receivables and payables for the trial balance which in turn form part of the financial statements.
- Control accounts are a means of proving the accuracy of the ledger accounts of receivables and payables. As a result this is a control mechanism to ensure accuracy of the receivables and payables personal ledgers. This control assists in the location of errors.
- Control accounts also assist in the calculation of missing figures where records are incomplete.
- Control accounts can also act as an internal check, i.e. the person posting entries to the control account acts as a check on a different person who posts amounts from the daybooks to the personal ledgers.

Should you have any further queries please feel free to contact me.

An Accountant Technician

1 Mark for Report Format
1 ½ Marks per each advantage (Max 2 advantages)



Part A

(i)

Warehouse

Rent expenses for the statement of profit and loss €£2,000 *12 months = €£24,000

1/2 Mark

Showroom

Rent expense for the year ended 31 December 2011 = €£30,000, monthly rent €£30,000/12 = €£2,500

Rent expenses for the statement of profit and loss €£2,500 *5 months = €£12,500

3/4 Mark

Rent expense for the year ended 31 December 2012 = €£27,000, monthly rent €£27,000/12 = €£2,250

Rent expenses for the statement of profit and loss €£2,250 *7 months = €£15,750

3/4 Mark

Total rent for showroom = €£28,250

(ii)

Rent Expenses T A/C

		€£		€£	
1/2 Mark	Balance b/d	4,000	Balance b/d	2,500	1/2 Mark
1 Mark	Bank Warehouse	24,000	Statement PL Warehouse	24,000	1/2 Mark
1 Mark	Bank Showroom	28,500	Statement PL Showroom	28,250	1/2 Mark
1 Mark	Balance c/d	2,250	Balance c/d	4,000	1 Mark
		<u>58,750</u>		<u>58,750</u>	
	Balance b/d	4,000	Balance b/d	2,250	

Part B

(i)

Allowance for receivables T Account

	Details	€£	Details	€£	
4 Marks	Statement of PL	2,444	Balance b/d	32,100	1 Mark
	Balance c/d	29,656		<u>32,100</u>	
		<u>32,100</u>	Balance c/d	29,656	

Irrecoverable Debt Expenses T Account

	Details	€£	Details	€£	
1/2 Mark	Irrecoverable debt	42,750	Allowance for receivables	2,444	1 Mark
1/2 Mark	Irrecoverable debt	14,410			

Solution Three (Cont'd)

Irrecoverable debt recovered T Account

Details	€£	Details	€£	Marks Allocated
		Irrecoverable debts recovered	2,750	1 Mark

G. Ginger

Statement of Profit and Loss the year ended 31 December 2012 (*Extract*)

½ Mark

Less Expenses

Irrecoverable debts

54,716

½ Mark

Irrecoverable debts recovered

(2,750)

1 Mark

G. Ginger

Statement of financial position as at 31 December 2012 (*Extract*)

½ Mark

Current assets

Receivables

406,950

½ Mark

Allowances for receivables

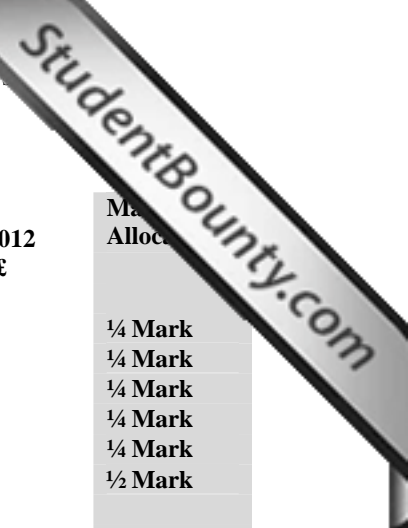
(29,656)

377,294

1 Mark

Working:

	€£
Receivables	420,950
Additional irrecoverable debts written off	<u>(14,410)</u>
	406,540
Specific allowance	<u>(9,820)</u>
	396,720
General allowance 5%	<u>5%</u>
	19,836
Specific allowance	<u>9,820</u>
Closing allowance	29,656
Opening allowance	<u>32,100</u>
Decrease in allowance	2,444



Part A
i

	1/1/2012 €£	1/1/2012 €£	Ma Alloc
Assets			
Tennis court and clubhouse	170,050		¼ Mark
Fixtures and fittings	32,740		¼ Mark
Fixtures and fittings (accumulated depreciation)	(9,630)		¼ Mark
Inventory	4,740		¼ Mark
Subscriptions in arrears	12,060		¼ Mark
Bank	14,120		½ Mark
Insurance prepaid	<u>3,200</u>		
		227,280	
Liabilities			
Payables	8,850		¼ Mark
Subscriptions in advance	7,750		¼ Mark
Bar wages due	1,230		¼ Mark
5% long term loan	80,000		¼ Mark
Life subscriptions fund	<u>90,000</u>		¼ Mark
		<u>(187,830)</u>	
Opening Accumulated Fund		39,450	

ii

Racket Tennis Club

Bar Trading Account for the year ended 31 December 2012.

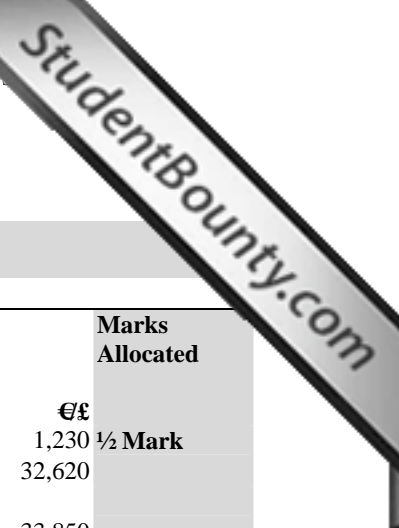
	€£	€£	
Sales		84,120	½ Mark
<u>Cost of sales</u>			
Opening inventory	4,740		½ Mark
Purchases	<u>35,510</u>		1½ Marks
	40,250		
Less closing inventory	(3,870)		½ Mark
Cost of sales		<u>(36,380)</u>	
Gross Profit		47,740	
Less expenses			
Bar wages		<u>(32,620)</u>	1½ Marks
Bar profit		15,120	

Working 1

1½ Marks from above broken down as follows:

Bar Payables A/C

	€£	€£			
½ Mark	Bank	34,620	Balance b/d	8,850	½ Mark
			Bar Trading Account Purchases	35,510	
½ Mark	Balance c/d	9,740			
		44,360	Balance b/d	44,360	
				9,740	



Working 2

1½ marks from above broken down as follows:

Wages A/C			
Marks Allocated		€£	Marks Allocated
½ Mark	Bank	32,750	1,230 ½ Mark
			32,620
½ Mark	Balance c/d	1,100	
		33,850	33,850
			1,100

iii

Profit/loss on dinner dance

	€£	
Receipts	14,410	½ Mark
<u>Costs</u>		
Catering for dinner dance	(4,120)	½ Mark
Advertising	(900)	½ Mark
General expenses	(3,140)	½ Mark
Profit on dinner dance	6,250	

iv

Racket Tennis Club

Income and expenditure account for the year to 31 December 2012

	€£	€£	
<u>Income</u>			½ Mark
Subscriptions		90,980	2½ Marks
Release of one year life subscriptions		10,000	1 Mark
Bar profit		15,120	½ Mark
Profit on dinner dance		6,250	½ Mark
Fees from non-members		<u>4,230</u>	½ Mark
		126,580	
<u>Expenditure</u>			
Light and heat	1,110		½ Mark
Bank charges	50		½ Mark
Depreciation	2,311		½ Mark
Insurance	7,100		1½ Mark
Loan interest	4,000		1 Mark
General repairs	<u>740</u>		½ Mark
		<u>(15,311)</u>	
Excess of income over expenses		111,269	

€£4,000 in loan interest above calculated on basis that the payment of principle happened at the end of the year. If student has assumed that the repayment of principle happened at the start of the year, they would have an interest charge of €£3,700. Both answers should receive full marks.

Solution Four (Cont'd)

Working 3

2½ marks from above broken down as follows:

Subscriptions Account					
	Details	€£	Details	€£	
½ Mark	Opening subs in arrears	12,060	Opening subs in advance	7,750	½ Mark
	I/E value for subs	90,980	Cash received for subs	87,500	½ Mark
½ Mark	Closing subs in advance	5,980	Closing subs in arrears	13,770	½ Mark
		109,020		109,020	
	Opening subs in arrears	13,770	Opening subs in advance	5,980	

Working 4

Fixtures and Fittings 1/1/12	€£32,740
Accumulated depreciation	<u>(€£9,630)</u>
	23,110
Depreciation 10%	<u>10%</u>
	2,311

1½ marks from above broken down as follows:

Insurance A/C					
		€£		€£	
½ Mark	Balance b/d	3,200	Income Expenditure AC	7,100	
½ Mark	Bank	8,000	Balance c/d	4,100	½ Mark
		<u>11,200</u>		<u>11,200</u>	
	Balance b/d	4,100			

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

Racket Tennis Club

Accumulated Fund as at 31 December 2012

	€£	€£	€£
Non-current assets			
Tennis court and clubhouse			170,050
Fixtures and fittings			<u>20,799</u>
			190,849
Current assets			
Closing inventories		3,870	
Subs in arrears		13,770	
Prepayments		4,100	
Bank		<u>110,450</u>	
Total assets			<u><u>323,039</u></u>
Equity and Liabilities			
Accumulated fund			
Accumulated fund 1/1/12		39,450	
Excess of income over expenditure		<u>111,269</u>	
			150,719
Non-Current Liabilities			
Life subscriptions fund			80,000

5% long term loan

74,000

Current liabilities

Payables

9,740

Subs in advance

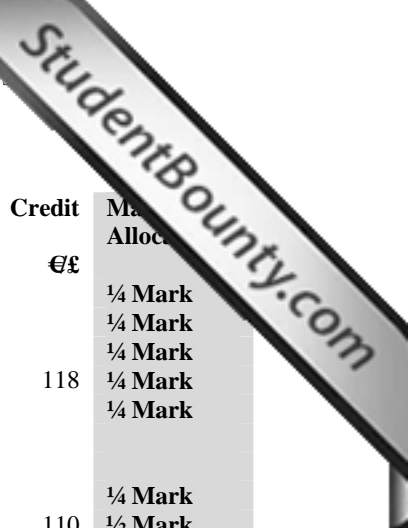
5,980

Accruals – loan interest

1,500

Accruals - wages

1,10018,320**Total Equity and liabilities****323,039**



Part A

	Debit	Credit	Ma Alloc
	€£	€£	
1.			
Dr Flowers (sundry expenses)	55		¼ Mark
Dr Stamps (sundry expenses)	22		¼ Mark
Dr Cake (sundry expenses)	41		¼ Mark
Cr Cash		118	¼ Mark
Being sundry expenses not posted			¼ Mark
2.			
Dr Suspense	220		¼ Mark
Cr Discounts received		110	½ Mark
Cr Discounts allowed		110	½ Mark
Being discounts received treated as discounts allowed in error			¼ Mark
3.			
Dr Sales returns	980		½ Mark
Dr Sales returns	890		½ Mark
Cr Suspense		1,870	¼ Mark
Being correction of error sales returned posted to the incorrect side of the T account and amount transposed			¼ Mark
4.			
Dr Purchases	17,150		½ Mark
Cr Purchases returns		17,150	½ Mark
Being correction of error purchases posted to purchased returns in error			¼ Mark
5.			
Dr Wages and salary costs	10,150		½ Mark
Dr Employers PRSI/NIC	900		½ Mark
Cr Net wages		7,105	½ Mark
Cr PRSI/NIC Liability		900	½ Mark
Cr PRSI/NIC Liability		3,045	½ Mark
Being the correction of an error of omission			¼ Mark
6.			
Dr Receivables	100		½ Mark
Cr Sales		100	½ Mark
Being the correction of an error of original entry			¼ Mark
7.			
Dr Buildings	1,045		½ Mark
Dr Repairs	1,045		½ Mark
Cr Suspense		2,090	¼ Mark
Being the correction of an error of principle			¼ Mark

Marks for narrative to only be awarded where at least one of the journal entries is correct

Part B

Suspense Account

	Details	€£	Details	€£	
2 Marks	Balance	3,740	Error 3	1,870	1 Mark
1 Mark	Error 2	220	Error 7	2,090	1 Mark
		<u>3,960</u>		<u>3,960</u>	

Solution Five (*Cont'd*)**Part C**

Proprietor's profit adjustment

	€£	Marks Allocated
Original loss	(41,870)	½ Mark
Error 1	(118)	½ Mark
Error 2	220	½ Mark
Error 3	(1,870)	½ Mark
Error 4	-	½ Mark
Error 5	(11,050)	½ Mark
Error 6	100	½ Mark
Error 7	<u>(1,045)</u>	½ Mark
	(55,633)	

Solution Six**Part A**

(i)

Relevance

Information should only be included in financial statements if it is relevant. Relevance is taken to mean that the information has the ability to influence the economic decisions of users. The information must be provided in a timely manner i.e. in time to influence those decisions.

Materiality is a component of relevance. Information is material if its omission or misstatement could influence the economic decisions of users.

Reliability

The Framework states that information is reliable if it possesses the following five characteristics:

1. It can be depended upon by users of accounting information to faithfully represent what it either purports to represent or could reasonably be expected to represent – that is that the information is not misrepresented or misleading. That is it gives a true and fair view.
2. It is free from deliberate or systematic bias - that is it is neutral.
3. It is free from material error. Users of accounting information can be reasonably assured that this is the case if the financial statements are accompanied by a clean (unqualified) audit report.
4. It is complete within the bounds of materiality.
5. In its preparation under conditions of uncertainty, a degree of caution that is prudence has been applied in exercising judgement and making the necessary estimates.

Comparability

By examining a business's financial statements for one accounting year an individual would gain a relatively small amount of insight in terms of the financial performance and position of the business. In order for financial information to be useful it must be comparable with the financial information of the business in previous accounting periods and with other businesses in the same industry. By comparing the financial information of a business over time one can assess trends and by comparing the financial information of a business with other businesses one can assess how the business is doing vis a vis its competitors. To be truly useful financial information must be comparable.

Comparability (both in presentation and calculation) can be achieved by being consistent in the use of accounting policies over time and where new policies are introduced for example the introduction of a new accounting standard by properly disclosing the change in accounting policies and the effect of the change when they happen.

Understandability

In order for financial information to be of any real value it must be presented to the users of accounting information in a manner that is understandable. Understandability needs to be considered under two headings:

- users' abilities – the preparers of financial statements are entitled to assume that users have a reasonable knowledge of business activities and accounting and are willing to study the information provided in the financial statements;
- aggregation and classification – this must be done appropriately or financial statements will lose meaning.

Marks Allocated**Relevance – 2 Marks****Reliability – 2 Marks (Note: not all points listed above are required for full marks)****Comparability – 2 Marks****Understandability – 2 Marks**

Solution Six (Cont'd)

(ii)

Relevance versus Reliability

Information that is relevant may not be reliable and vice versa. Where there is a conflict between relevance and reliability it is usually appropriate to use the information that is most relevant of whatever information is reliable.

Neutrality versus Prudence

Reliable information should possess both these qualities. Neutrality means freedom from bias, but prudence may result in bias. Prudence seeks to ensure that, where there is uncertainty, profits and assets are not overstated while losses and liabilities are not understated.

Relevance versus Understandability

Information that is relevant and reliable may be difficult for some users to understand. In these situations, the entity must find a trade-off, or compromise, that maximises the usefulness of the information in the financial statements. There is also a need to balance the cost of providing information with the likely benefits to users of providing it.

Marks Allocated
Any one conflict – 3 Marks

Part B

In many jurisdictions companies are required to produce annual financial statements and have them audited by an external auditor. The need for auditing is derived from the need for trust/confidence in the information in the annual financial statements. This is because in many large companies the owners of the company are not the same as the directors of the company.

Directors are appointed by the shareholders to act on their behalf and have a fiduciary duty (must act in good faith). Directors are responsible for stewardship of assets but also are required to prepare regular reports on the effectiveness of that stewardship. Hence a conflict of interest arises and an independent expert is employed to check the accuracy of this report.

An annual external audit is where an independent firm of accountants examines the books, records and financial statements produced by the directors to assess whether they are true and fair.

Marks Allocated
Quality of answer – 4 Marks

Part C

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.

People need to have confidence in the quality of the complex services provided by accountants and accounting technicians. Because of these high expectations, accountants have adopted a code of ethics, also known as codes of professional conduct. These ethical codes call for their members to maintain a level of self-discipline that exceeds the requirements of laws and regulations.

Marks Allocated
Quality of answer – 3 Marks

Part D

A whistle blower is a person who alleges misconduct in the workplace and it covers all methods of reporting 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.

Laws are supposed to protect whistle blowers from retaliation, people who feel threatened may feel forced out of the organisation.

Marks Allocated
Quality of answer – 2 Marks

1st Year Examination: May 2013

Financial Accounting

Examiner's Report

Statistical Analysis – By Question						
Question No.	1	2	3	4	5	6
Average Mark (%)	63%	73%	44%	65%	49%	39%
Nos. Attempting	1108	1099	1069	896	837	376

Statistical Analysis - Overall	
Pass Rate	65%
Average Mark	56%
Range of Marks	Nos. of Students
0-39	275
40-49	116
50-59	192
60-69	191
70 and over	340
Total No. Sitting Exam	1114
Total Absent	344
Total Approved Absent	52
Total No. Applied for Exam	1510

General Comments:

The overall standard of answers was generally good. Most candidates are now attempting the required number of questions, which is very welcome. A small number of candidates are still completing 3 questions in section B and two questions in section A in error, therefore they were only marked out of four questions.

The general presentation of scripts was acceptable. The majority of candidates are now filing question parts together. The main areas of weakness around presentation are as follows:

- Poor and untidy handwriting
- No workings presented for some questions
- Some candidates are making calculation errors within workings and thus presenting an incorrect figure in the solution, but all the elements of the working are correctly treated. It would appear time and examination pressure could be a factor. Where the elements of the calculation are clearly shown in the workings marks are not being deducted for this
- Workings presented all combined in the rough work section of the paper – despite the answer book explicitly stating not to do this
- Some candidates are not taking sufficient care in the writing of their student numbers

Question 1

A Statement of Profit and Loss and Statement of Financial Position question. This question was generally well answered. The majority of candidates are now presenting workings correctly for this question type. Some candidates are correctly preparing workings but then omitting the revised figure from the primary statements (in many cases including the original figure as per the trial balance). A common example of this in the current sitting was the loss on disposal of the motor vehicle and the adjusted purchases figure. Where however the calculation is clearly shown in workings marks are awarded.

While answers were generally good the following were common mistakes/comments:

- The adjustment to inventory was better than in prior sittings – but there is still room for improvement here for some candidates
- The adjustment to drawings was generally well answered, but some candidates omitted the insurance element of the adjustment in error. Some candidates are still adjusting opening/closing inventory for drawings of inventory in error
- The adjustment for unrecorded sales was reasonably well answered. This was the first sitting where such an adjustment has appeared in this question type and candidates handled it well
- Depreciation calculations were generally well handled
- Some candidates omitted the adjustment in relation to the loss on disposal of the motor vehicle, while others calculated a loss but treated it as a profit in the Statement of Profit and Loss
- The receivable in relation to the insurance claim was missed by many candidates. Others incorporated it within the bank balance in error
- Weaker candidates are still having issues distinguishing between figures that are presented on the same row of the trial balance. For example sales and purchases. Candidates are reminded that this is a test of bookkeeping knowledge
- Weaker candidates were confused as to the different treatment of the PRSI/NI liability versus the PRSI/NI costs
- The treatment of the accumulated profit/loss figure proved a challenge for some candidates. Incorrect treatments included the following:
 - Including the figure within current assets
 - Including the figure within current liabilities
 - Treating the figure as a profit as opposed to a loss (it was on the debit side of the trial balance)
 - Including the figure as an expense

Question 2

A Control Account question. This question was generally very well answered, with a not insignificant number of candidates scoring full marks. Areas of weakness were as follows:

- Treatment of customer refunds;
- Inclusion of the opening allowance for receivables in the receivables control account in error;
- Treatment of the dishonoured cheque;
- Some weaker candidates are still not presenting the answer to part B in report format and losing easy marks as a result.

Question 3

An accruals & prepayments and allowance for receivables question. Answers to this question were mixed, with part B better answered than part A by most candidates.

Part A

Some weaker candidates did not attempt this question part. Common mistakes were as follows:

- The most common mistake when calculating the expense figure for the Statement of Profit and Loss was using the incorrect number of months. Some candidates took 6 months and 6 months pre and post rent reduction as opposed to 5 months and 7 months. Others only included 11 months of the rent expense while others included 13 & 14 months of the rent expense
- Some candidates seem to have learned off the solution from last year which dealt with rental income as opposed to rental expense. For part ii of the question these candidates included all figures on the incorrect side of the T Account

Part B

Answers to this question type were improved when compared to prior years. Particular improvements noted around the treatment of the specific allowance and the extracts from the primary statements. Common mistakes were as follows:

- Some candidates prepared a receivables account when none was asked for, thus wasting time
- Some candidates entered items on the incorrect side of the T accounts. This was a particular issue for the allowance for receivables account and the irrecoverable debt recovered T accounts
- Some candidates correctly deducted the specific allowance before applying the general allowance percentage, but failed to add the specific allowance to the closing general allowance to arrive at the final overall allowance for receivables

Question 4

Not for profit question. A very popular choice of question amongst candidates, and generally candidates scored well on the question. Where marks were lost, they were lost in the following areas:

Part i

- Life subscriptions fund was treated as an asset in error
- Candidates omitted the bank balance from the opening accumulated fund calculation. A small minority of candidates treated it as a liability within the calculation in error
- Some candidates are essentially preparing a Statement of Financial Position to answer this question part. While not incorrect, it is not the best use of their time given that only three marks are being awarded for the calculation. As per the solution a list of assets and a list of liabilities is perfectly sufficient to calculate the opening accumulated fund

Part ii

- Some candidates are preparing this in T account format (this is fine) but they are placing figures on the incorrect side of the T account and losing significant marks as a result
- Some candidates are making errors when calculating the bar wages and purchases figures. However where the workings are performed in T account format reasonable attempt marks can generally be awarded

Part iii

This portion of the question was very well answered. The most common error was incorrect totting of figures. Where figures were clearly shown marks were awarded as appropriate

Part iv

The calculation of the member's subscriptions figure was much improved from prior years. Common errors were as follows:

- Inclusion of the loan repayment in the account in error
- Treating the release of life subscription as an expense as opposed to income
- A small minority of candidates are preparing a Statement of Financial Position as opposed to an Income and Expenditure account in error

Question 5

A correction of error & suspense account question. A very popular question among candidates, the standard of answers was generally good. An improvement from prior years related to the inclusion of narratives and a much higher percentage of candidates attempting part C of the question.

Where issues arose they were in the following areas:

- Some candidates are attempting the question by including journals for: what happened, what should have happened and correction all together, that is there is no separation between workings and the answers. This is fine where candidates are clearly distinguishing between the: what happened, what should have happened and the correction elements of the answer. However where candidates are not stating that this is the approach or leaving lines between the: what happened, what should have happened and correction elements of the answer it is making the correction of the answer very difficult.
- Adjustment 5: wages journal omitted proved a challenge for many candidates as did adjustment 6

- Many candidates failed to realise that the profit figure before adjustments was in fact a loss. Candidates are reminded to read each question carefully to make sure that they are using the correct information.

Question 6

This question proved to be very unpopular, with very few candidates attempting it. Those that did attempt it scored poorly. Candidates that attempted the question seemed to have been “caught” for a question as in most cases it was evident that they did not know the theory upon which the question was based.

Part A

Many candidates were able to identify the characteristics of financial accounting information but were not able to prepare a brief note on the characteristics or simply reiterated the characteristic in the note.

Part B

Most candidates had some understanding of what an external audit is, but struggled to explain why conducting one is important.

Part C

Answers here tended to be vague, with many candidates not identifying that as an Accounting Technician Ireland student that they are also bound by a code of ethics.

Part D

This was generally well answered.