

FINANCIAL ACCOUNTING

Foundation stage examination 7 December 1999

From 10.00 am to 1.00 pm
plus ten minutes reading time from 9.50 am to 10.00 am.

Instructions to candidates

Answer five questions in total. All four questions from Section A, and one of the two questions from Section B. The marks available for each question are shown in italics in the right-hand margin.

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

SECTION A (Answer all questions)**1**

Orinoco tennis and croquet club was established in 1988. During 1999 it had a record 120 members and received a grant to continue its work into under 14 tennis coaching. In addition to six grass courts and two croquet lawns it has a small club house with changing and bar facilities. The social focal point each year is a family barbecue and treasure hunt which is usually a roaring success.

The following is a summary of the bank ledger of Orinoco tennis and croquet club for the year ended 30 September 1999.

Receipts	£	Payments	£
Balance at bank 1 October 1998	2,300	Staff wages	2,670
Members subscriptions	31,400	Barman's wages	5,347
Entrance fees	1,300	Loan	10,000
Bar sales	34,470	Interest on loan	7,200
Competition receipts	2,020	Bar supplies	27,580
Under 14 grant	12,000	Barbecue supplies	1,205
Barbecue & treasure hunt takings	2,000	Rates	1,400
		Groundsman's wages	12,800
		Upkeep lawns	3,300
		Lighting, heating and cleaning	3,770
		Competition prizes	1,200
		Treasure hunt prize	300
		Tennis coach	3,200
		Printing, postage and stationery	120
		Deposit with the building society	12,000
Balance carried down	6,602		
	<u>92,092</u>		<u>92,092</u>

Additional information:

- 1 The assets of the club on 1 October 1998 at cost were land £100,000, club house £45,000 (associated depreciation £11,250) and furniture and equipment £25,000 (associated depreciation £6,250), bar stock £2,300 and prizes in hand £300. £3,400 was owing for bar supplies and £2,000 for lighting, heating and cleaning. The club also had a loan of £90,000.

- 2 On 30 September 1999 bar stocks were £1,890, prizes in hand £250. £3,100 was owing for bar supplies and £1,000 had been paid in advance for the upkeep of the lawns. £205 interest was due from the building society.
- 3 The grant was received to help to support the part-time employment of an under 14 tennis coach for 5 years from 1 October 1998.
- 4 The club house has an anticipated life of 20 years and no residual value. Furniture and equipment are depreciated at 25% using the reducing balance method.
- 5 During the year the club introduced a life membership fee of £1,000. Eight members took up, and fully paid for, this option in the 1998/99 subscription year. The club's policy is to account for life membership over ten years.

The club charges £200 for annual membership. Subscriptions in arrears or in advance are treated as debtors or creditors respectively.

At 30 September 1998	7 members had not yet paid subscriptions for the period 1 Oct 97 - 30 Sept 98 5 had paid in advance for the following year's membership
At 30 September 1999	3 members had not paid subscriptions for the period 1 Oct 98 - 30 Sept 99 6 had paid in advance for the following year's membership.

• **Requirement for question 1**

- (a) Write up the annual subscriptions account. 3
- (b) Prepare the Income and Expenditure account for the club for the year ended 30 September 1999, showing separately the profit/loss on the bar. 10
- (c) Prepare the balance sheet for the club as at 30 September 1999. 12

(25)

2

Cholet has identified the following balances relating to sales and purchases for November 1999. All sales and purchases are on credit.

	£
Purchase ledger balances 1 November 1999	49,356
Sales ledger balances 1 November 1999	62,555
Purchases day book	412,421
Sales day book	378,889
Returns inwards	12,345
Returns outwards	3,793
Cheques paid to suppliers	324,356
Petty cash paid to suppliers	325
Cheques received from customers	345,080
Cash received from customers	577
Customers' cheques dishonoured	45
Discounts allowed	15,754
Discounts received	6,752
Bad debts written off	934
Increase in provision for bad debts	8,970
Balances on the sales ledger offset against balances on the purchase ledger	3,452
The totals of the lists of balances extracted from the ledgers at 30 November 1999 were as follows:	
Sales ledger balances 30 November 1999	63,347
Purchase ledger balances 30 November 1999	75,667

• **Requirement for question 2**

- (a) Prepare from the information given the sales ledger control account and purchases ledger control account for the month ended 30 November 1999. 9
- (b) If either or both of the control accounts prepared in (a) do not balance, list the detailed procedures you would use to identify any errors in either or both of the accounts. 3
- (c) Identify two other forms of control over ledger entries and explain how they operate to prevent or detect errors. 8

(20)

3

The following trial balance has been extracted from the ledgers of Bulgaria, a wholesaler of specialist vehicle parts, as at 30 September 1999.

	£	£
Freehold land	27,000	
Freehold buildings	120,000	
Buildings depreciation		40,000
Sales		349,321
Bank		4,271
Provision for bad debts		520
Returns inwards	3,275	
Debtors	39,331	
Furniture and fittings cost	17,200	
Furniture and fittings depreciation		9,944
Wages and salaries	35,181	
Returns outwards		2,597
Drawings	11,000	
Motor vehicles cost	18,000	
Motor vehicles depreciation		9,180
Capital at 1 October 1998		109,671
Purchases	252,400	
Carriage inwards	270	
Carriage outwards	325	
Creditors		18,141
Bad debts	3,400	
Rates and insurance	4,770	
Stock at 1 October 1998	19,800	
Repairs to buildings	5,679	
General expenses	3,214	
Receipt from sale of fixed asset		17,200
	560,845	560,845

The following items still need to be taken into account:

- 1 Stock was valued at £15,700 as at 30 September 1999.
- 2 Wages and salaries due but unpaid for September 1999 amounted to £1,072.
- 3 Rates and insurance paid in advance as at 30 September 1999 amounted to £235.
- 4 During the year Bulgaria withdrew goods for his personal use amounting to £740 - this has not yet been taken into account in the business's ledger.

- 5 Depreciation is provided for each month in which an asset is owned by Bulgaria. Depreciation is still to be provided for this year as follows:
- Buildings: straight line over 15 years (no residual value assumed);
 - Fixtures and fittings: 25% reducing balance;
 - Motor vehicles: 30% reducing balance.
- 6 On 31 May 1999 a building was sold for £17,200. This building was originally purchased on 1 August 1995 at a cost of £30,000. No adjustments have been made in respect of this disposal.
- 7 The provision for bad debts as at 30 September 1999 is to be £720.
- 8 During the year Bulgaria received £300 cash in respect of a debt he had written off as bad in a previous year. He has yet to bank this money or make any entries in the ledger regarding this receipt.

• **Requirement for question 3**

- (a) Prepare a profit and loss account for the year ended 30 September 1999. 12
- (b) Prepare a balance sheet as at 30 September 1999. 8

(20)

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Set out below are the balance sheets of Tobermoray Limited as at 31 March 1999 and 1998.

	1999		1998	
	£	£	£	£
Fixed assets:				
Land		450,000		300,000
Property:				
Cost	270,000		315,000	
Depreciation	<u>(75,000)</u>		<u>(60,000)</u>	
		195,000		255,000
Plant and machinery:				
Cost	142,500		97,500	
Depreciation	<u>(67,500)</u>		<u>(30,000)</u>	
		75,000		67,500
		720,000		622,500
Current assets:				
Stock	63,000		31,500	
Debtors	24,000		19,500	
Cash/bank	<u> </u>		<u>30,000</u>	
		87,000		81,000
Current liabilities:				
Corporation tax	7,500		6,000	
Trade creditors	13,500		28,500	
Ordinary dividends	7,500		9,000	
Preference dividends	3,000		3,000	
Bank overdraft	<u>18,000</u>		<u> </u>	
		(49,500)		(46,500)
Net assets		<u>757,500</u>		<u>657,000</u>
Less: creditors due after more than one year				
10% debentures		<u>(210,000)</u>		<u>(210,000)</u>
Net assets		<u>547,500</u>		<u>447,000</u>
Financed by:				
10% Preference Shares £1		60,000		60,000
Ordinary £1 Shares		360,000		300,000
Share Premium Account		15,000		
Revaluation Reserve		30,000		15,000
Profit and Loss Account		82,500		72,000
		<u>547,500</u>		<u>447,000</u>

Notes:

- 1 No interim ordinary dividend was paid during the financial year 1998/99.
- 2 Preference dividends are payable $\frac{1}{2}$ yearly in arrears on 1 April and 1 October.
- 3 A proposed final ordinary dividend of £7,500 is payable for 1998/99.
- 4 The following table details the movements in fixed assets during the year.

	Land £	Property £	Plant and Machinery £
Cost			
Balance at 31 March 1998	300,000	315,000	97,500
Revaluation	15,000		
Additions	135,000		45,000
Disposals		(45,000)	
Balance at 31 March 1999	450,000	270,000	142,500
Provision for Depreciation			
Balance at 31 March 1998		60,000	30,000
Depreciation for year		46,500	37,500
Depreciation on disposal		(31,500)	
Balance at 31 March 1999		75,000	67,500
Net Book Value at 31 March 1999	450,000	195,000	75,000

- 5 The property sold during the year ended 31 March 1999 realised £14,475.
- 6 Corporation tax payable for the year ended 31 March 1999 was £7,500.

- **Requirement for question 4**

- (a) Prepare a reconciliation of the operating profit to the net cash inflow from operating activities. 10
 - (b) Prepare the cash flow statement for the year ended 31 March 1999. 10
- (20)

SECTION B (Answer question 5 or question 6)**5**

Explain, with examples, the difference between capital and revenue expenditure. What would the impact be on the financial position of an organisation if capital expenditure was accidentally classified as revenue expenditure and vice versa?

(15)

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(a) Define the purpose of accounting bases. Using depreciation as an example, distinguish between accounting concepts, accounting bases and accounting policies.

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(b) Under what circumstances would an organisation be able to change its accounting policies?

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(15)