



**Accounting  
Technicians**  
Ireland



**1<sup>st</sup> Year Examination : Summer 2009**

# **FINANCIAL ACCOUNTING I**

## **NEW SYLLABUS**

**PAPER, SOLUTIONS**

**and**

**EXAMINERS REPORT**

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# NEW SYLLABUS

**1<sup>st</sup> Year Examination : Summer 2009**

**PAPER : FINANCIAL ACCOUNTING I**

Tuesday 19<sup>th</sup> May 2009 - 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 next page.

*Candidates may prepare Financial Statements in accordance with IFRS i.e. an Income Statement and a Balance Sheet if they so wish.*

**SECTION A**

**Answer ALL THREE QUESTIONS (Compulsory) in this Section**

**QUESTION 1 (Compulsory)**

You are asked by your employer to complete a short note for a client on each of the following:

(a) Explain what is meant by "Books of Original (Prime) Entry."

**4 Marks**

(b) The following figures were extracted from the books of Jane Purcell:

|  | <b>€/£</b> |
|--|------------|
| Stock 1 <sup>st</sup> January 2008 .....   | 108,000    |
| Sales .....                                | 360,000    |
| Stock 31 <sup>st</sup> December 2008 ..... | 120,000    |
| Margin 25%                                 |            |

You are required to prepare the trading account for the year ended 31<sup>st</sup> December 2008.

**8 Marks**

(c) Explain what is meant by mark-up?

**4 Marks**

(d) Explain how and why a petty cash system operates within a business.

**4 Marks**

**Total 20 Marks**

**QUESTION 2 (Compulsory)**

The following Trial Balance was extracted from the books of John Smith on 31<sup>st</sup> December 2008:

|                               | <b>DR</b>        | <b>CR</b>        |
|-------------------------------|------------------|------------------|
|                               | <b>€/£</b>       | <b>€/£</b>       |
| Buildings .....               | 1,470,000        |                  |
| Motor Vehicles .....          | 165,000          |                  |
| Fixtures & Fittings .....     | 450,000          |                  |
| Purchases & Sales .....       | 1,515,000        | 2,352,000        |
| Stock 1/1/08 .....            | 157,800          |                  |
| Commission Received .....     |                  | 45,000           |
| Provision for Bad Debts ..... |                  | 7,200            |
| Salaries .....                | 300,000          |                  |
| General Expenses .....        | 18,300           |                  |
| Discount Received .....       |                  | 5,100            |
| Rent Received .....           |                  | 20,400           |
| Mortgage Interest Paid .....  | 13,500           |                  |
| Insurance .....               | 18,600           |                  |
| Debtors & Creditors .....     | 135,000          | 198,600          |
| VAT Payable .....             |                  | 23,100           |
| PRSI Payable .....            |                  | 5,400            |
| Bank .....                    |                  | 47,700           |
| Drawings .....                | 48,600           |                  |
| Capital .....                 |                  | 1,587,300        |
|                               | <u>4,291,800</u> | <u>4,291,800</u> |

**QUESTION 2 (Cont'd)**

The following information and instructions are to be taken into account when completing the question.

- (i) Provide for depreciation on assets as follows:

|                     | <b>Cost<br/>€/£</b> | <b>Method of depreciation</b> |
|---------------------|---------------------|-------------------------------|
| Buildings           | 1,968,000           | 2% Reducing Balance           |
| Motor Vehicles      | 270,000             | 15% Straight Line             |
| Fixtures & Fittings | 600,000             | 20% Straight Line             |

A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

- (ii) On the 30<sup>th</sup> June 2008 a motor vehicle which had been purchased on 1<sup>st</sup> January 2004 for €/£48,000 was crashed and not replaced. An insurance claim resulted in €/£21,000 being received but not posted to John Smith's bank account. (Ignore VAT)
- (iii) Stocks at 31<sup>st</sup> December 2008 cost €/£155,700. This figure includes damaged stocks which cost €/£5,000 and which are now only worth €/£2,000. (Ignore VAT)
- (iv) No record had been made in the books for goods in transit on 31<sup>st</sup> December 2008. An invoice had been received for these goods showing the recommended retail selling price (pre VAT 20%) of €/£37,500 which is cost plus 25%. These goods were being delivered directly to John Smith's customer (VAT 20%).
- (v) Provision for bad debts to be adjusted to 5% of debtors.
- (vi) The mortgage interest paid is all personal.

**Requirement**

You are required to prepare:

- (a) The Trading Profit & Loss account for the year ended 31<sup>st</sup> December 2008.
- (b) The Balance Sheet as at 31<sup>st</sup> December 2008.

**10 Marks**

**10 Marks**

**Total 20 Marks**

**Please account for VAT in respect of instruction No (iv).**

**QUESTION 3** (*Compulsory*)

John Jones's Trial Balance failed to agree on 31<sup>st</sup> December 2008 and the difference was entered into a suspense account. On examination of the books and records of John Jones the following errors were revealed:

- (1) The total of the sales daybook €/ $\pounds$ 978,000 had been posted to the sales account as €/ $\pounds$ 879,000.
- (2) Goods to the value €/ $\pounds$ 36,000 (including VAT @ 20%) had been returned by a debtor and no entries had been made in the books.
- (3) Goods taken by John Jones to the value of €/ $\pounds$ 7,800 (excluding VAT @ 20%) had been credited to the Sale account and debited to the drawings account as €/ $\pounds$ 8,700.
- (4) Fixtures and Fittings purchased from Killeen's for €/ $\pounds$ 72,500 had been entered in the purchase book and debited to Killeen's account (Ignore VAT).
- (5) A debt of €/ $\pounds$ 6,000 owed privately to John Jones by a business creditor had been offset in full settlement against a business debt of €/ $\pounds$ 6,300 owed by the business. No entry had been made in the books in respect of this offset.
- (6) During the year products purchased from ALL RIGHT Ltd had to be recalled. The arrangement was that all expenses incurred by John Jones in recalling goods sold were to be recharged to ALL RIGHT Ltd. The total expense of the recall was €/ $\pounds$ 3,250. It was recorded in the general ledger expense account and has not yet been recharged to ALL RIGHT Ltd. (Ignore VAT)
- (7) John Jones presented his private car valued at €/ $\pounds$ 4,900 to the business. No entry had been made in the books for this transaction. Later this car was sold on credit to a debtor of the business for €/ $\pounds$ 5,200. The sale had been treated in error as a credit sale. (Ignore VAT) (Ignore Depreciation)

**Requirement**

You are required to:

- (a) Journalise the necessary corrections. **8 Marks**
  - (b) Show the suspense account. (Calculate the opening balance) **4 Marks**
  - (c) Prepare a statement of adjusted / corrected net profit if the original profit was €/ $\pounds$ 67,980. **8 Marks**
- Total 20 Marks**

**Please account for VAT as appropriate in this question.**

SECTION B

Answer any TWO of the three questions in this Section

QUESTION 4

The assets and liabilities of Green Trees Lawn Tennis Club on 1<sup>st</sup> January 2008 were:

|  | €/£       |
|--|-----------|
| Bank & Cash .....                          | 83,375    |
| Bar Stock .....                            | 8,000     |
| Premises .....                             | 1,400,000 |
| Fittings .....                             | 598,000   |
| Subscriptions Due from Previous year ..... | 9,800     |
| Subscriptions paid in advance .....        | 15,000    |
| Tennis coach bonus due .....               | 14,000    |

During the year, receipts and payments were as follows:

| <b>Receipts</b>       |  | €/£     |
|-----------------------|--|---------|
| Subscriptions .....   |  | 540,900 |
| Bar receipts .....    |  | 198,000 |
| Sundry receipts ..... |  | 5,890   |
| Locker rental .....   |  | 4,000   |

| <b>Payments</b>                     |  | €/£     |
|-------------------------------------|--|---------|
| Bar Supplies .....                  |  | 108,000 |
| Barman's Wages .....                |  | 45,000  |
| Tennis Coach Salary and Bonus ..... |  | 98,000  |
| Rates .....                         |  | 15,000  |
| New Fittings to Locker Rooms .....  |  | 76,000  |
| Repair to Nets .....                |  | 1,500   |
| Cleaner's Wages .....               |  | 21,000  |

You are given the following information as at 31<sup>st</sup> December 2008:

|   | €/£    |
|---|--------|
| (i) Rates Prepaid .....                                       | 2,000  |
| (ii) Subscriptions Due .....                                  | 19,000 |
| (iii) Subscriptions paid in advance .....                     | 2,500  |
| (iv) Amounts due for Bar Supplies .....                       | 26,300 |
| (v) Depreciation of Premises .....                            | 28,000 |
| (vi) Depreciation of Fixtures & Fittings .....                | 89,700 |
| (vii) Bar Stock valued at 31 <sup>st</sup> December 2008 .... | 9,500  |

**Requirement**

You are required to show/prepare:

- (a) The Accumulated Fund as at 1<sup>st</sup> January 2008 4 Marks
- (b) The Bank A/C for the year ended 31<sup>st</sup> December 2008 3 Marks
- (c) The Bar Trading Account for the year ended 31<sup>st</sup> December 2008 3 Marks
- (d) The Income and Expenditure account for the year ended 31<sup>st</sup> December 2008 and the Balance Sheet at that date.

**10 Marks**  
**Total 20 Marks**

**QUESTION 5**

Mark Smith, a landlord and business man, did not keep a full set of books for the year ended 31<sup>st</sup> December 2008. He has asked you to prepare accounts for him and has supplied you with the following information:

| <b>Cash Receipts</b>                                 | <b>€/£</b>       |
|--|------------------|
| Cash balance on hand at 1 <sup>st</sup> January 2008 | 64,460           |
| Cash Sales .....                                     | 723,800          |
| Trade Debtors .....                                  | 358,400          |
| Rent Received .....                                  | 16,500           |
|  | <u>1,163,160</u> |

| <b>Cash Payments</b> | <b>€/£</b>       |
|----------------------|------------------|
| Drawings .....       | 93,500           |
| Cash Purchases ..... | 383,900          |
| Wages .....          | 61,600           |
| Expenses .....       | 10,780           |
| Equipment .....      | 16,720           |
| Creditors .....      | 528,000          |
|                      | <u>1,094,500</u> |

The following information is also available:

|                              | <b>1<sup>st</sup> January 2008</b> | <b>31<sup>st</sup> December 2008</b> |
|------------------------------|------------------------------------|--------------------------------------|
|                              | <b>€/£</b>                         | <b>€/£</b>                           |
| Premises .....               | 1,210,000                          | 1,210,000                            |
| Stock .....                  | 129,800                            | 136,400                              |
| Motor Vehicles .....         | 57,000                             | 57,000                               |
| Trade Creditors .....        | 907,500                            | 1,090,500                            |
| Trade Debtors .....          | 875,000                            | 975,000                              |
| Rent Prepaid by tenant ..... | 12,000                             |                                      |
| Wages Due .....              | 25,000                             | 35,000                               |
| Rent Due by tenant .....     |                                    | 6,000                                |

**Requirement**

**N. B.** Please ignore depreciation.

You are required to:

- (a) Prepare the appropriate ledger accounts to reflect the above transactions.
- (b) Extract the Trading and Profit & Loss account for the year ended 31<sup>st</sup> December 2008
- (c) Extract the Balance Sheet as at 31<sup>st</sup> December 2008

**12 Marks**

**4 Marks**

**4 Marks**

**Total 20 Marks**

**QUESTION 6**

On the 30<sup>th</sup> November 2008 the bank column on Mark Peters cash book showed a debit balance of €/ $\pounds$ 12,750. His bank statement on the same date showed a balance in the bank of €/ $\pounds$ 13,710. On examination of the cash book and bank statement you find:

- (1) Mark's wife Mary when lodging business takings of €/ $\pounds$ 5,250 inadvertently lodged it to her private account.
- (2) Cheques issued by Mark Peters for €/ $\pounds$ 9,450 had not been presented for payment.
- (3) One cheque No 356 for €/ $\pounds$ 2,220 was entered on the incorrect side of the cash book.
- (4) Lodgements made in September 2008 and October 2008 amounting to €/ $\pounds$ 1,200 had not been credited by the bank.
- (5) One lodgement made by Mark Peters for €/ $\pounds$ 1,350 was entered by the bank to the credit of Mary Peters account.
- (6) A cheque received and lodged by Mark Peters for €/ $\pounds$ 6,150 was dishonoured by the bank. Mark Peters had not made any adjustments in his books for this.
- (7) Credits to the bank statement not recorded by Mark Peters were Dividends, €/ $\pounds$ 5,700 credit transfer received €/ $\pounds$ 4,800.
- (8) A Debit to the bank statement not recorded by Mark Peters was bank charges €/ $\pounds$ 600.

**Requirement**

You are required to:

- (a) Adjust Mark Peters cash book in the ledger. **7 Marks**
- (b) Prepare a statement on 30<sup>th</sup> November 2008 reconciling the adjusted cash book balance with the bank statement balance. **7 Marks**
- (c) Draft a short note advising Mark Peters on actions that need to be taken in the future in order to eliminate some of the above issues. **6 Marks**

**Total 20 Marks**



# NEW SYLLABUS

1<sup>st</sup> Year Examination Summer 2009

FINANCIAL ACCOUNTING I

Solutions

## Solution to question 1

- (a) **Books of Original entry** (Prime Books) are where similar financial transactions are listed for the first time normally in chronological order and pre numbered. Each entry will be made from details provided to the business in the form of a purchase invoice, a sales invoice, details from cheque stubs or a remittance advice attached to business receipts.

The principle books of original entry are:

Purchases Day book  
Sales Day Book  
Cheque Payment Book  
Cash receipts book  
Petty Cash Expense Book

Each book will set out details of every transaction entered. For example the purchase book will analyse each purchase listing the date, the supplier name, the internal purchase number allocated to the purchase invoice, the total amount, the vat amount, the net amount, with this net amount analysed under the appropriate headings, i.e. materials/stock, telephone, rent, stationery, etc.

Sales Day Book is also set out in columnar form. Each sale invoice will be entered setting out the date, the invoice number, the customer name, the total value of the sale, the vat element and the sale excluding vat amount.

Cheque payments book will record in a columnar format the date and cheque number, the payee the total amount paid analysed to the column for that payment. Most payments would be posted to creditor's column but other columns may be, wages, vat, paye, petty cash etc.

At the end of a designated period all the books of original entry are totalled and posted to the various ledger accounts. This posting forms part of the double entry system.

Solution to question 1 continued on next page

**Solution to question 1 (Cont'd)**

**(b) Jane Purcell - Trading Account for the year ended 31<sup>st</sup> December 2008**

|                           | €/£            | €/£                          |
|---------------------------|----------------|------------------------------|
| Sales                     |                | 360,000                      |
| <i>Less</i> Cost of Sales |                |                              |
| Opening Stock             | 108,000        |                              |
| Purchases                 | <u>282,000</u> | (Balancing figure)           |
|                           | 390,000        | (Balancing figure)           |
| <i>Less</i> Closing Stock | <u>120,000</u> |                              |
| Cost of Sales             |                | (270,000) (Balancing figure) |
| Gross Profit 25% margin   |                | <u><u>90,000</u></u>         |

(c) Markup is the percentage of the cost of goods sold added on to costs to achieve a selling price.

**Example:**

A chicken costs the butcher €/£2.00. He sells the chicken with a markup of 75% = €/£1.50. His selling price will be €/£3.50 and his gross profit on each chicken he sells will be €/£1.50 thus gross margin =  $\frac{150}{350} = 52.5\%$

**(d) How a Petty Cash System operates within a business**

A set small amount of cash, called a float, is withdrawn from the company bank account normally by cashing a petty cash signed cheque in the bank. A responsible member of staff, who keeps it in a safe locked box, controls cash.

When a small amount of cash is required within the business a petty cash docket is completed setting out details of the cash requirement and authorised. This docket is placed into the cash box and the cash handed over. Where a receipt is received in respect of the purchase for which the cash was issued, this is then attached to the original withdrawal docket. At any one time the total of the remaining cash in the box and the total of all dockets in the box should equal the exact amount of the original float. At the end of a specific period all dockets are totalled and a cheque is cashed for this exact amount bringing the total petty cash back to the original starting amount. This is known as the imprest system.

**Why a petty Cash system is operated within a business**

In most businesses there is a requirement for small amounts of cash. For example to purchase supplies for the canteen where there is no credit facility in the local shop, for the purchase of stamps, newspapers, cleaning and other supplies and the reimbursement of staff incidental expenses. The system must control the flow of cash and regular spot checks should be done by an independent member of management to ensure the system is working correctly.

**Solution to question 2**

**Trading Profit & Loss Account for the year ended 31st December 2008**

|                               | €/£              | €/£              | €/£                          |
|-------------------------------|------------------|------------------|------------------------------|
| Sales                         |                  | 2,389,500        |                              |
| Opening stock                 | 157,800          |                  |                              |
| Add Purchases                 | 1,545,000        |                  |                              |
| Less Closing stock            | <u>(152,700)</u> |                  |                              |
| Cost of sales                 |                  | <u>1,550,100</u> |                              |
| Gross Profit                  |                  |                  | 839,400                      |
| Commission                    |                  |                  | 45,000                       |
| Discount Received             |                  |                  | 5,100                        |
| Rent                          |                  |                  | 20,400                       |
| Profit on disposal of vehicle |                  |                  | <u>1,800</u>                 |
|                               |                  |                  | <u>911,700</u>               |
| <b>Expenses</b>               |                  |                  |                              |
| Provision for bad debts       |                  | 1,800            |                              |
| Salaries                      |                  | 300,000          |                              |
| General Expenses              |                  | 18,300           |                              |
| Depreciation                  |                  | 182,700          |                              |
| Insurance                     |                  | <u>18,600</u>    |                              |
|                               |                  |                  | 521,400                      |
| <b>Net Profit</b>             |                  |                  | <u><u><b>390,300</b></u></u> |

**Balance Sheet as at 31st December 2008**

|                            | Cost<br>€/£      | Acc Dep<br>€/£  | NBV<br>€/£              |
|----------------------------|------------------|-----------------|-------------------------|
| <b>Fixed Assets</b>        |                  |                 |                         |
| Buildings                  | 1,968,000        | 527,400         | 1,440,600               |
| Motor Vehicles             | 222,000          | 109,500         | 112,500                 |
| Fixtures & Fittings        | 600,000          | 270,000         | 330,000                 |
|                            | <u>2,790,000</u> | <u>906,900</u>  | 1883,100                |
| <b>Current Assets</b>      |                  |                 |                         |
| Stock                      |                  | 152,700         |                         |
| Debtors                    | 180,000          |                 |                         |
| Less Provision             | <u>(9,000)</u>   | 171,000         |                         |
|                            |                  | <u>323,700</u>  |                         |
| <b>Current Liabilities</b> |                  |                 |                         |
| Creditors                  | 234,600          |                 |                         |
| VAT                        | 24,600           |                 |                         |
| PRSI                       | 5,400            |                 |                         |
| Bank                       | <u>26,700</u>    |                 |                         |
|                            |                  | <u>291,300</u>  |                         |
| Net Current Assets         |                  |                 | <u>32,400</u>           |
| Net Assets                 |                  |                 | <u><u>1,915,500</u></u> |
| <b>Financed By</b>         |                  |                 |                         |
| Net Profit                 |                  | 390,300         |                         |
| Capital                    |                  | 1,587,300       |                         |
| Less Drawings              |                  | <u>(62,100)</u> |                         |
|                            |                  |                 | <u><u>1,915,500</u></u> |

Solution to question 2 continued on next page

Solution to question 2 (Cont'd)

Notes

|                          | Buildings        | Motor Vehicles | Fixtures & Fittings | Total            |
|--------------------------|------------------|----------------|---------------------|------------------|
|                          | €/£              | €/£            | €/£                 | €/£              |
| Cost                     | 1,968,000        | 270,000        | 600,000             | 2,838,000        |
| Add                      | -                | -              | -                   | -                |
| Less disposal            |                  | (48,000)       |                     | (48,000)         |
|                          | <u>1,968,000</u> | <u>222,000</u> | <u>600,000</u>      | <u>2,790,000</u> |
| Accumulated Depreciation | 498,000          | 105,000        | 150,000             | 753,000          |
| Note* <sup>^</sup>       |                  | (28,800)       |                     | (28,800)         |
| Depreciation             | 29,400           | 33,300         | 120,000             | 182,700          |
|                          | <u>527,400</u>   | <u>109,500</u> | <u>270,000</u>      | <u>906,900</u>   |
| NBV 2008                 | 1,440,000        | 112,500        | 330,000             | 1,883,100        |
| NBV 2007                 | 1,470,000        | 165,000        | 450,000             | 2,085,000        |

Note\* 4 years Dep @ 15% PA = 4\*(48,000 x 15%) = 28,800

Profit/Loss on disposal of vehicle

|                                |                  |
|--------------------------------|------------------|
|                                | €/£              |
| Cost                           | 48,000           |
| Acc Dep                        | 28,800           |
| NBV 30/6/08                    | 19,200           |
| Insurance proceeds             | <u>21,000</u>    |
| Profit on disposal             | <u>1,800</u>     |
| <b>Stock 31/12/08</b>          |                  |
| Cost                           | 155,700          |
| Damaged stock                  | (5,000)          |
| Net realisable value           | <u>2,000</u>     |
|                                | <u>152,700</u>   |
| <b>Purchases</b>               | 1,515,000        |
| GIT                            | <u>30,000</u>    |
|                                | <u>1,545,000</u> |
| <b>Creditors</b>               | 198,600          |
| Goods in Transit               | <u>36,000</u>    |
|                                | <u>234,600</u>   |
| <b>VAT</b>                     | 23,100           |
| Purchase GIT                   | (6,000)          |
| Sales GIT                      | <u>7,500</u>     |
|                                | <u>24,600</u>    |
| <b>Sales</b>                   | 2,352,000        |
| Goods in transit               | <u>37,500</u>    |
|                                | <u>2,389,500</u> |
| <b>Debtors</b>                 | 135,000          |
| Goods in transit               | <u>45,000</u>    |
|                                | <u>180,000</u>   |
| <b>Provision for bad debts</b> | 7,200            |
| Revised provision 5%           | <u>9,000</u>     |
| Increase required              | <u>1,800</u>     |
| <b>Drawings</b>                | 48,600           |
| Mortgage interest              | <u>13,500</u>    |
|                                | <u>62,100</u>    |
| <b>Bank O/D</b>                | (47,700)         |
| Insurance proceeds             | <u>21,000</u>    |
|                                | <u>(26,700)</u>  |

**Solution to question 3**

|          |    |  | €/£     | €/£            |
|----------|----|--|---------|----------------|
| <b>1</b> | Dr | Suspense A/c   | 99,000  |                |
|          | Cr | Sales<br>Being incorrect posting from sales day book   |         | 99,000         |
| <b>2</b> | Dr | Sales Returns  | 30,000  |                |
|          | Dr | VAT  | 6,000   |                |
|          | Cr | Debtors<br>being goods returned from a debtor not entered in the books   |         | 36,000         |
| <b>3</b> | Dr | Sales  | 8,700   |                |
|          | Cr | Drawings<br>to correct the posting completed in books  |         | 8,700          |
|          | Dr | Drawings   | 9,360   |                |
|          | Cr | Stock<br>VAT account<br>being posting required to record the drawing from stock of goods to the value of €/£7,800 plus vat @ 20% by John Jones   |         | 7,800<br>1,560 |
|          | Cr |  |         |                |
| <b>4</b> | Dr | Suspense A/C   | 145,000 |                |
|          | Cr | Purchase Book  |         | 72,500         |
|          | Cr | Killeens A/C   |         | 72,500         |
|          | Dr | fixtures & Fittings  | 72,500  |                |
|          | Cr | Killeens A/C<br>being purchases of fixtures & fittings posted incorrectly  |         | 72,500         |
| <b>5</b> | Dr | Discount received  |         | 300            |
|          | Cr | Creditor   | 300     |                |
|          | Cr | Creditor   | 6,000   |                |
|          | Cr | Drawings<br>being a debt owed to John Jones offset against a debt owed by the business.  |         | 6,000          |
| <b>6</b> | Dr | All Right Ltd  | 3,250   |                |
|          | Cr | Expenses<br>Being costs not recharged to All Right Ltd   |         | 3,250          |
| <b>7</b> | Dr | Motor vehicles   | 4,900   |                |
|          | Cr | Capital<br>Being introduction of capital by John Jones   |         | 4,900          |
|          | Dr | Sales  | 5,200   |                |
|          | Cr | Motor Vehicles<br>Profit on sale of motor vehicle<br>Being correction needed to rectify missposting of sale of motor vehicle from cash sales a/c |         | 4,900<br>300   |
|          | Cr |  |         |                |

**Solution to question 3 continued on next page**

Solution to question 3 (Cont'd)

| Suspense A/C            |                |                         |                |
|-------------------------|----------------|-------------------------|----------------|
|                         | €/£            |                         | €/£            |
| Sales (1)               | 99,000         | Balance (Diff. on T.B.) | 244,000        |
| fixtures & Fittings (4) | <u>145,000</u> |                         |                |
|                         | <u>244,000</u> |                         | <u>244,000</u> |

Statement of Adjusted Net Profit for year ended 31/12/08

|   |                       |        |
|---|-----------------------|--------|
|   | €/£                   | €/£    |
| Opening Profit                              |                       | 67,980 |
| <b>Jnl 1</b> Sales                          | 99,000                |        |
| <b>Jnl 2</b> Sales Returns                  | (30,000)              |        |
| <b>Jnl 3</b> Drawings                       | (9,360)               |        |
| <b>Jnl 4</b> Purchases                      | 72,500                |        |
| <b>Jnl 6</b> Expenses                       | 3,250                 |        |
| <b>Jnl 7</b> Motor vehicle (sale misposted) | (5,200)               |        |
| Profit on sale                              | 300                   |        |
| <b>Adjusted Net Profit</b>                  | <u><u>198,470</u></u> |        |

Solution to question 4

Accumulated Fund as at 1/1/08

| Assets                     | €/£           | €/£              | Notes                          | €/£            |
|----------------------------|---------------|------------------|--------------------------------|----------------|
| Cash / Bank                | 83,375        |                  | <b>1 Subscriptions</b>         |                |
|                            |               |                  | Receipts                       | 540,900        |
| Stock                      | 8,000         |                  | Subscriptions prepaid 1/1/08   | 15,000         |
| Premises                   | 1,400,000     |                  | Subscriptions due 1/1/08       | (9,800)        |
| Fittings                   | 598,000       |                  | Subscriptions prepaid 31/12/08 | (2,500)        |
| Subs Due                   | <u>9,800</u>  |                  | Subscriptions due 31/12/08     | 19,000         |
|                            |               | 2,099,175        |                                |                |
| <b>Less Liabilities</b>    |               |                  | Income & Expenditure account   | <u>562,600</u> |
| Subs                       | 15,000        |                  |                                |                |
| Tennis Coach Bonus Due     | <u>14,000</u> | 29,000           | <b>2 Rates</b>                 |                |
|                            |               |                  | Expenditure                    | 15,000         |
|                            |               |                  | Less Rates prepaid             | <u>(2,000)</u> |
| Accumulated Fund at 1/1/08 |               | <u>2,070,175</u> |                                | <u>13,000</u>  |
|                            |               |                  | <b>3 Tennis Coach</b>          |                |
|                            |               |                  | Salaries                       | 98,000         |
|                            |               |                  | Tennis coach bonus due         | (14,000)       |
|                            |               |                  |                                | <u>84,000</u>  |

Bank Account

|                                   | €/£            |             | €/£            |
|-----------------------------------|----------------|-------------|----------------|
| Opening Balance                   | 83,375         | Expenditure | 364,500        |
| Receipts                          | 748,790        | Balance     | 467,665        |
| (54,900 + 19,800 + 5,890 + 4,000) |                |             |                |
|                                   | <u>832,165</u> |             | <u>832,165</u> |
| Balance B/D                       | 467,665        |             |                |

Bar Trading Account for the year ending 31st December 2008

|                              | €/£     | €/£           |
|------------------------------|---------|---------------|
| Sales                        |         | 198,000       |
| Opening Stock                | 8,000   |               |
| Purchases (108,000 + 26,300) |         | 134,300       |
| Less Closing Stock           | (9,500) |               |
| Cost of Stock sold           |         | (132,800)     |
| Barman's Wages               |         | 45,000        |
| Bar Profit                   |         | <u>20,200</u> |

Solution to question 4 continued on next page

**Solution to question 4 (Cont'd)**

**Income & Expenditure Account for the year ended 31st December 2008**

|                                       |                |                       |                         |
|---------------------------------------|----------------|-----------------------|-------------------------|
| <b>Income</b>                         | <b>€/£</b>     | <b>€/£</b>            |                         |
| Subscriptions (Note 1)                |                | 562,600               |                         |
| Bar profit                            | 20,200         |                       |                         |
| Sundry Receipts                       | 5,890          |                       |                         |
| Locker rental                         | <u>4,000</u>   |                       |                         |
|                                       |                | 592,690               |                         |
| <br><b>Less Expenditure</b>           |                |                       |                         |
| Rates (Note 2)                        | 13,000         |                       |                         |
| Tennis Coach (Note 3)                 |                | 84,000                |                         |
| Repair to Nets                        | 1,500          |                       |                         |
| Depreciation Premises                 | 28,000         |                       |                         |
| Depreciation Fixtures                 | 89,700         |                       |                         |
| Cleaners wages                        | <u>21,000</u>  |                       |                         |
|                                       |                | (237,200)             |                         |
| <br>Excess of Income over Expenditure |                | <u><u>355,490</u></u> |                         |
| <br><b>Balance as at 31/12/08</b>     |                |                       |                         |
|                                       | <b>Cost</b>    | <b>Depreciation</b>   | <b>NBV</b>              |
|                                       | <b>€/£</b>     | <b>€/£</b>            | <b>€/£</b>              |
| Premises                              | 1,400,000      | (28,000)              | 1,372,000               |
| Fixtures                              | <u>674,000</u> | <u>(89,700)</u>       | <u>584,300</u>          |
|                                       |                |                       | 1,956,300               |
| <br><b>Current Assets</b>             |                |                       |                         |
| Bar Stock                             | 9,500          |                       |                         |
| Subscriptions Due                     | 19,000         |                       |                         |
| Rates prepaid                         | 2,000          |                       |                         |
| Bank                                  | <u>467,665</u> |                       |                         |
|                                       |                | 498,165               |                         |
| <br><b>Current Liabilities</b>        |                |                       |                         |
| Bar Creditors                         | 26,300         |                       |                         |
| Subscriptions prepaid                 | <u>2,500</u>   |                       |                         |
|                                       |                | (28,800)              |                         |
| <br><b>Working Capital</b>            |                |                       | <b>469,365</b>          |
| <br><b>Total Net Assets</b>           |                |                       | <u><u>2,425,665</u></u> |
| <br><b>Financed by</b>                |                |                       |                         |
| Accumulated fund 1/1/08               |                | 2,070,175             |                         |
| Add excess of income over expenditure |                | <u>355,490</u>        |                         |
|                                       |                |                       | <u><u>2,425,665</u></u> |

Solution to question 5

Workings

| 1   |               | Rent                          |               |
|-----|---------------|-------------------------------|---------------|
|     | €/£           |                               | €/£           |
| P&L | 34,500        | Rent receipts (Balancing Fig) | 16,500        |
|     |               | Rent due                      | 6,000         |
|     |               | Rent Prepaid 1/1/08           | 12,000        |
|     | <u>34,500</u> |                               | <u>34,500</u> |

| 2                            |                  | Debtors       |                  |
|------------------------------|------------------|---------------|------------------|
|                              | €/£              |               | €/£              |
| Balance 1/1/08               | 875,000          | Cash Receipts | 358,400          |
| Credit sales (Balancing Fig) | 458,400          |               |                  |
|                              | <u>1,333,400</u> | Balance C/D   | 975,000          |
|                              |                  |               | <u>1,333,400</u> |

| 3           |                  | Creditors                 |                  |
|-------------|------------------|---------------------------|------------------|
|             | €/£              |                           | €/£              |
| Payments    | 528,000          | Balance 1/1/08            | 907,500          |
|             |                  | Purchases (Balancing Fig) | 711,000          |
| Balance C/D | <u>1,090,500</u> |                           |                  |
|             | <u>1,618,500</u> |                           | <u>1,618,500</u> |

| 4 |  | Sales                   |                  |
|---|--|-------------------------|------------------|
|   |  |                         | €/£              |
|   |  | Cash Sales              | 723,800          |
|   |  | Credit sales (From Drs) | 458,400          |
|   |  |                         | <u>1,182,200</u> |

| 5                           |                  | Purchase |  |
|-----------------------------|------------------|----------|--|
|                             | €/£              |          |  |
| Cash Purchases              | 383,900          |          |  |
| Credit Purchases (From Crs) | 711,000          |          |  |
|                             | <u>1,094,900</u> |          |  |

| 6              |                  | Cash / Bank |                  |
|----------------|------------------|-------------|------------------|
|                | €/£              |             | €/£              |
| Balance 1/1/08 | 64,460           | Drawings    | 93,500           |
| Sales          | 723,800          | Purchases   | 383,900          |
| Debtors        | 358,400          | Wages       | 61,600           |
| Rent           | 16,500           | Expenses    | 10,780           |
|                |                  | Equipment   | 16,720           |
|                |                  | Creditors   | 528,000          |
|                |                  | Balance C/D | 68,660           |
|                | <u>1,163,160</u> |             | <u>1,163,160</u> |
| Balance B/D    | 68,660           |             |                  |

| 7             |               | Wages               |               |
|---------------|---------------|---------------------|---------------|
|               | €/£           |                     | €/£           |
| Paid          | 61,600        | Wages Due 1/1/08    | 25,000        |
| Wages Due c/d | 35,000        | P&L (Balancing Fig) | 71,600        |
|               | <u>96,600</u> |                     | <u>96,600</u> |

Solution to question 5 continued on next page

Solution to question 5 (Cont'd)

| <b>8 Opening Capital Account</b> |                  |                             |                  |
|----------------------------------|------------------|-----------------------------|------------------|
|                                  | €/£              |                             | €/£              |
| Premises                         | 1,210,000        | Trade Creditors             | 907,500          |
| Stock                            | 129,800          | Wages Due                   | 25,000           |
| Bank / cash                      | 64,460           | Rent Prepaid                | 12,000           |
| Motor Vehicles                   | 57,000           | Capital c/d (Balancing fig) | 1,391,760        |
| Trade Debtors                    | 875,000          |                             |                  |
|                                  | <u>2,336,260</u> |                             | <u>2,336,260</u> |

**Trading Profit & Loss Account for the year ended 31/12/08**

|                       | €/£           | €/£              |
|-----------------------|---------------|------------------|
| Sales (See 4)         |               | 1,182,200        |
| Opening Stock         | 129,800       |                  |
| Add Purchases (See 5) | 1,094,900     |                  |
| Less Closing Stock    | (136,400)     |                  |
| Cost of Goods sold    |               | <u>1,088,300</u> |
| Gross Profit          |               | 93,900           |
| Rent (See 1)          |               | 34,500           |
| Wages (See 7)         | 71,600        |                  |
| Expenses              | <u>10,780</u> |                  |
|                       |               | (82,380)         |
| Net Profit            |               | <u>46,020</u>    |

**Balance Sheet as at 31/12/08**

|                            | €/£           | €/£           | €/£              |
|----------------------------|---------------|---------------|------------------|
| <b>Fixed assets</b>        |               |               |                  |
| Premises                   |               | 1,210,000     |                  |
| Equipment                  |               | 16,720        |                  |
| Motor Vehicles             |               | <u>57,000</u> | 1,283,720        |
| <b>Current Assets</b>      |               |               |                  |
| Debtors                    | 975,000       |               |                  |
| Stock                      | 136,400       |               |                  |
| Bank (See 6)               | 68,660        |               |                  |
| Rent Due                   | <u>6,000</u>  | 1,186,060     |                  |
| <b>Current Liabilities</b> |               |               |                  |
| Creditors (W3)             | 1,090,500     |               |                  |
| Accruals                   | <u>35,000</u> | (1,125,500)   |                  |
| Net Current Assets         |               |               | 60,560           |
| Net Assets                 |               |               | <u>1,344,280</u> |
| <b>Financed By</b>         |               |               |                  |
| Opening Capital (see 8)    |               | 1,391,760     |                  |
| Less Drawings              |               | (93,500)      |                  |
| Net profit                 |               | <u>46,020</u> |                  |
|                            |               |               | <u>1,344,280</u> |

Solution to question 6

| (a)             |               | Bank Account           |               |
|-----------------|---------------|------------------------|---------------|
|                 | €/£           |                        | €/£           |
| Opening balance | 12,750        | Miss entry (2,200 x 2) | 4,440         |
| Dividends rec   | 5,700         | Dishonoured cheque     | 6,150         |
| Credit transfer | 4,800         | Bank Charges           | 600           |
|                 |               | Balance c/d            | 12,060        |
|                 | <u>23,250</u> |                        | <u>23,250</u> |
| Balance b/d     | 12,060        |                        |               |

|   |               |
|---|---------------|
| <b>(b) Bank Statement</b>                           |               |
| Balance   | 13,710        |
| Add mislodged                                       | 5,250         |
| Add misdirected                                     | 1,350         |
| Revised bank Balance                                | <u>20,310</u> |
| <b>Bank Reconciliation statement as at 30/11/08</b> |               |
| Revised Bank Balance                                | 20,310        |
| Less cheques not presented                          | (9,450)       |
|   |               |
| Add lodgements not credited                         | 1,200         |
| <b>Reconciled Balance</b>                           | <u>12,060</u> |

- (c) It is very unusual to have lodgements made to the bank for the previous two months not credited by the bank. Mark Peters should go to the bank and seek explanations as to why lodgements were not recorded in his account.

In addition we would suggest that pre-printed lodgement forms be sourced from the bank which will eliminate the chances of mislodging to Mrs Peters account in the future.

1<sup>st</sup> Year Examination Summer 2009

## FINANCIAL ACCOUNTING I

### Examiner's Report

# NEW SYLLABUS

#### Overall comment

For the third examination under the new syllabus the overall results for this session were below average.

Candidates seemed to have major difficulties with questions two and three the Trading Profit & loss account and balance sheet and error correction, suspense account questions.

Double entry and knowing how to post / correct transactions is key to understanding accounting. Candidates did not display a comprehensive knowledge of these crucial areas when answering questions in this session. Candidates who know their Debits and Credits will always score well at this accounting level.

The narrative question and the bank reconciliation question were generally well answered. Candidates who attempted the club account tended to score well.

Overall a disappointing result with over half of the candidates sitting the exam scoring less than 50%.

#### Question 1

The first part of this question was well answered in most cases though a large number of candidates did not include cheque payments and cash receipts books as books of original entry. Many candidates did not explain the format of the books or what details are contained therein.

There were 8 marks available for the small numerical second part to this question, which tested candidates understanding of trading accounts and margins. Very few candidates were able to calculate the trading profit. A large number of candidates did not calculate the correct cost of goods sold figure. Many candidates mistook the cost of goods sold as the purchase figure for the year.

- Part three was generally well answered.
- Part four was also well answered.

## Question 2

This was a trading profit & loss question. The main difficulties for candidates were:

- Sales figures were not adjusted for goods in transit.
- The closing stock figure was not calculated correctly.
- The profit on disposal of the car was often left out and when attempted was incorrectly calculated.
- The bad debt provision was calculated incorrectly in many cases.
- Candidates did not include the value of the crashed motor vehicle in calculating the cost of Motor Vehicles.
- The depreciation calculation for motor vehicles proved troublesome.
- A few candidates did not show any structure at all to the balance sheet and produced a trial balance instead.

## Question 3

In general, candidates found this question challenging and many seemed confused or mixed up when applying basic accounting principals especially in part (a) of the question.

The most common errors encountered in the journals were:

- Part 1 The Sales A/C was debited in error with €99,000,
- Part 3 The initial error in this entry was corrected but many candidates incorrectly debited sales again and credited vat and drawings,
- Part 4 Many candidates credited Killeen's a/c with €72,500 and debited suspense a/c with €72,500.
- Part 5 Some candidates debited the drawings a/c and credited the creditors or suspense a/c with €6,000.
- Part 6 Here, some candidates debited suspense a/c instead of All Right Ltd account.
- Part 7 Most candidates were correct in the first part of this section but were lost after that. Many treated the sale of the fixed asset (car) as normal credit sale and had credited sales a/c and debited debtors a/c.

The most common errors encountered in the suspense a/c were:

All entries for suspense that were incorrectly entered in the journal, were correspondingly entered incorrectly in the suspense a/c.

The most common errors encountered in the statement of adjusted profit were:

- Sales returns of €30,000 were added on.
- Drawings of €8,700 were not taken away.
- Fixtures & Fittings of €72,000 were taken away.
- Expenses of €3,200 were taken away.

## Question 4

This was a straight forward club account question where candidates who attempted it scored well.

The type of areas where marks were not gained were:

- Many candidates did not prepare the closing balance sheet.
- Some candidates put the purchase of Locker Room Fittings into the Income and Expenditure Account. Thus many did not put them into the balance sheet.

A bar trading account is a trading account and so expenses such as barmen's wages don't go into it they go into the income and expenditure account.

**Question 5**

Quite a few candidates scored very well in this question, which required basis accounting skills, i.e. prepare the accounts, extract a Trading Profit & Loss account and prepare a balance sheet.

The most common errors noted for this question were:

- Many candidates did not prepare an opening Statement of Account.
- Rent prepaid by a tenant was posted to the wrong side of the capital account.
- The accounts were not always balanced off.
- The wages prepaid was posted to the wrong side of the wages account.
- The new equipment purchased was left out of the fixed asset section of the balance sheet.

**Question 6**

A bank reconciliation question which was well answered by candidates, with most candidates who attempted the question scoring very well.

Some candidates posted the bank's errors to the books of Mark Peters rather than adjusting the banks opening balance before the reconciliation was completed.

