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NEW SYLLABUS



FOUNDATION EXAMINATION

AUTUMN 2008

FINANCIAL ACCOUNTING I

PAPER, SOLUTIONS

and

EXAMINERS REPORT

NOTES TO USERS ABOUT THESE SOLUTIONS

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The solutions are relevant to the tax rates in the year the Examination was sat. A copy of the tax rates is enclosed with the solutions.

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NEW SYLLABUS

The Institute of Accounting Technicians in Ireland

Foundation Examination : Autumn 2008

PAPER 1 : FINANCIAL ACCOUNTING I

Tuesday 26th August 2008 - 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 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, €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.

SECTION A

Answer ALL THREE QUESTIONS (Compulsory) in this Section

QUESTION 1 (Compulsory)

The following information relates to the debtors and creditors of Formans' a sole trader for the year ended 31st December 2007:

(1) Extract from the books as at 1st January 2007:

	€/£
Debtors' ledger debit balances.....	40,000 Dr
Debtors' ledger credit balances.....	4,000 Cr
Creditors' ledger credit balances	36,000 Cr
Creditors' ledger debit balances.....	16,000 Dr

(2) Transactions for the year ended 31st December 2007:

	€/£
Sales on credit.....	280,000
Sales returns.....	16,000
Purchases on credit.....	180,000
Purchases returns	8,000
Amounts received from debtors	240,000
Discounts allowed to debtors.....	4,000
Bad debts written off	12,000
Payments to creditors.....	150,000
Discounts allowed by creditors.....	6,000
Dishonoured cheque received from debtor (included in the amounts received from debtors above).....	2,500

At 31st December 2007 the total of the credit balances in the Debtors' ledger was €/£6,000 and the total of the debit balances in the Creditors' ledger was €/£2,400.

Requirement

You are required to

(a) Prepare the debtors and creditors control accounts for Forman for the year ended 31st December 2007.

12 Marks

(b) Explain *briefly* the advantage of preparing control accounts.

4 Marks

(c) Explain why credit balances appear in the debtors' ledger and debit balances in the creditors' ledger.

4 Marks

Total 20 Marks

QUESTION 2 (Compulsory)

The following figures have been extracted from the books of Mooney, a sole trader, at 31st December 2007:

	1 st January 2007 €/£	31 st December 2007 €/£
Trade Creditors' balances	400,000	500,000
Trade Debtors' balances	200,000	240,000
VAT account	80,000 Cr	24,000 Dr
Bank Account	10,000 Dr	30,000 Dr
Summary of transactions for the year:	€/£	
Invoiced sales including VAT	4,000,000	
Sales returns including VAT	20,000	
Bank Payments:	€/£	
Trade Creditors' including VAT	3,400,000	
Revenue commissioners VAT Payment	120,000	
Purchase of Machine including VAT	400,000	
Purchases from Trade Creditors' for the year including VAT	3,600,000	

ADDITIONAL INFORMATION

- (1) The rate of VAT is 25% on all transactions.
- (2) Trade creditors issued a rebate on purchases for €/£100,000 including VAT.

Requirement

You are required to:

- (a) Prepare the ledger accounts necessary to record the above transactions for the year ended 31st December 2007.
- (b) Write a *short* note on how to and why you account for VAT in an organisation.

15 Marks

5 Marks

Total 20 Marks

QUESTION 3 (Compulsory)

You are asked by the partner in charge of new trainees in your accountancy firm to prepare a short note for distribution at the first induction session of this year's recruits. The note should cover briefly the following *five* topics.

- (1) Ethical issues for the accounting technician **4 Marks**
- (2) The different types of business entities: sole trader, partnership and limited company **4 Marks**
- (3) Financial Accounting **4 Marks**
- (4) Management Accounting **4 Marks**
- (5) Auditing **4 Marks**

Total 20 Marks

SECTION B

Answer any TWO of the three questions in this Section

QUESTION 4

The following trial balance was extracted from the books of T Higgins on 31st December 2007:

	€/£	€/£
Fixed Assets:		
Buildings cost.....	140,000	
Machinery cost.....	124,000	
Delivery vans cost.....	50,000	
Accumulated depreciation:		
Buildings		28,000
Machinery		48,000
Delivery vans		16,000
Debtors' and creditors'	37,400	72,400
Purchases and sales.....	586,000	749,580
Stock at 1 st January 2007.....	51,600	
Provision for bad debts.....		2,100
Salaries.....	89,200	
General expenses	12,750	
Discounts received.....		700
Rent and rates	1,400	
Interest paid.....	2,600	
Insurance	7,800	
VAT		3,700
PRSI		1,200
Bank		6,300
Drawings.....	24,600	
Capital account		199,370
	<u>1,127,350</u>	<u>1,127,350</u>

ADDITIONAL INFORMATION

- (1) Stock at 31st December 2007 at cost was €/£65,900. This figure includes damaged stock which cost €/£3,900 and which is now worth only €/£1,500.
- (2) Goods which had cost €/£3,000 had been sent to a customer on a sale or return basis. These goods had been incorrectly treated as a credit sale at a mark up of 20%. They were not included in the stock at 31st December 2007.
- (3) The bank figure in the trial balance when compared to the bank statement revealed that the following adjustment is required:

A cheque issued to a supplier for €/£1,850 had been entered in the books (cash book and creditors ledger) as €/£1,580.
- (4) A cheque issued for €/£1,000 to Mrs Higgins for private use had not yet been presented to the bank. This had not been posted in the books.
- (5) An amount of €/£300 had been received in respect of a debt previously written off. This receipt has not been recorded in the books.

QUESTION 4 (Cont'd.)

ADDITIONAL INFORMATION (Cont'd.)

(6) Provision is to be made for depreciation as follows:

Buildings	2% reducing balance
Machinery	15% reducing balance

The delivery van is to be written down to a zero value due to it being badly damaged in an accident

(7) The provision for bad debts to be adjusted to 4% of debtors

Requirement

You are required to prepare:

(a) The trading profit & loss account for the year ended 31st December 2007.

15 Marks

(b) The balance sheet as at 31st December 2007.

5 Marks

Total 20 Marks

QUESTION 5

On 31st March 2008 Tom Jones received his business bank statement which showed a credit balance of €/ \pounds 18,280 while his cash book showed a debit balance of €/ \pounds 17,000. On examination of the cash book and bank statement you find the following:

- (1) Cheques issued by Jones amounting to €/ \pounds 17,400 had not been presented for payment.
- (2) Lodgements amounting to €/ \pounds 1,600 had not been credited by the bank.
- (3) €/ \pounds 1,800 lodged to the bank by Tom Jones has mistakenly been entered by the bank into the account of Tim Jones.
- (4) Bank charges of €/ \pounds 2,000 had not been entered in Jones's books.
- (5) A credit transfer received of €/ \pounds 6,400 had not been entered in Jones's books.
- (6) Dividends received into the bank for €/ \pounds 4,000 had not been entered in Jones's books
- (7) A cheque received from a customer for €/ \pounds 8,200 had been lodged to the bank but had been dishonoured by the bank. Jones had made no adjustment for the dishonoured cheque.
- (8) A cheque issued by Jones for €/ \pounds 2,960 had been entered on the wrong side of the cash book.
- (9) A lodgement for €/ \pounds 7,000 was entered in error into Tom Jones' personal account instead of his business account by the bank.

Requirement

You are required to:

(a) Adjust the cash book and bring down the correct balance. .

10 Marks

(b) Prepare a statement on 31st March 2008 reconciling the adjusted cash book balance with the bank statement balance.

7 Marks

(c) Explain *briefly* why a bank reconciliation statement is prepared.

3 Marks

Total 20 Marks

QUESTION 6

The trial balance of B Trennan, a garage owner, failed to agree and the difference was posted to a suspense account. The following balance sheet was prepared on 31st December 2007:

	€/£	€/£	€/£
Fixed Assets:			
Buildings	435,000		
Machinery	<u>114,000</u>		549,000
Current Assets:			
Stock	147,000		
Debtors	<u>126,923</u>	273,923	
Current Liabilities:			
Suspense account	18,923		
Creditors	135,000		
Bank	<u>69,000</u>	<u>222,923</u>	
Net current assets			<u>51,000</u>
Net Assets			<u><u>600,000</u></u>
Financed by:			
Capital at 1 st January 2007	525,000		
Add: Profit for year	94,500		
Less Drawings	<u>(19,500)</u>		<u>600,000</u>

On checking the books the following errors were noted:

- (i) A motor vehicle purchased on credit from Car Suppliers for €/£21,000 had been entered on the incorrect side of Car Suppliers account and credited as €/£2,100 in the machinery account.
- (ii) Goods sold on credit for €/£975 had been returned to Trennan. The entries made for the return were €/£75 on the credit of the machinery account and €/£98 on the debit of the purchase account.
- (iii) A personal debt of Trennan amounting to €/£1,598 had been offset in full against a business debt of €/£1,650 owed to the business for repairs undertaken. No entries were made in the books for this offset.
- (iv) Trennan won €/£12,000 in his local community lotto draw. He paid €/£6,000 to his sales manager as payment of commission owed which included the year end creditors and he paid €/£6,000 to a creditor as payment in full of a debt of €/£6,600. No entries were made for these transactions in the books.
- (v) Trennan returned goods he purchased on credit for €/£16,200 but entered this transaction in the books as €/£12,150. A credit note subsequently arrived from the supplier for €/£15,750 being the original invoiced amount less a charge for transport of returned goods. Trennan entered this credit note €/£15,750 correctly but did not post the entries for the transport charge.

Requirement

You are required to:

- (a) Prepare the journalise entries to correct the above **8 Marks**
- (b) Prepare the suspense account **2 Marks**
- (c) Prepare a statement of corrected net profit and a corrected balance sheet as at 31st December 2007

10 Marks
Total 20 Marks



NEW SYLLABUS

The Institute of Accounting Technicians in Ireland

Foundation Examination : Autumn 2008

SOLUTIONS TO PAPER 1 : FINANCIAL ACCOUNTING I

Author : G. Perry

Solution to question 1(a)

Debtors Control Account

	€/£		€/£
Opening Balance	40,000	Opening Balance	4,000
Sales	280,000	Sales Returns	16,000
Dishonoured Cheque	2,500	Debtor Receipts	240,000
		Discounts allowed	4,000
Balance c/d	6,000	Bad Debts written off	12,000
		Balance c/d	52,500
	<u>328,500</u>		<u>328,500</u>
Balance b/d	52,500	Balance b/d	6,000

Creditors Control Account

	€/£		€/£
Opening Balance	16,000	Opening Balance	36,000
Purchases Returns	8,000	Purchases	180,000
Creditor Payments	150,000	Balance c/d	2,400
Discounts received	6,000		
Balance c/d	38,400		
	<u>218,400</u>		<u>218,400</u>
Balance b/d	2,400	Balance b/d	38,400

Solution to question 1(b)

Control accounts act as a check on the accuracy of the postings and totals of the individual ledger accounts.

The total amounts owing by the debtors and creditors can be quickly obtained by balancing the control accounts.

Control accounts enable errors to be localised and found quickly.

By using control accounts a business can give responsibility for different sections to different people and then hold them responsible for errors.

Solution to question 1 (c)

Credit balances can appear in the Debtors ledger when a Debtor overpays the balance on their account or when a credit was issued to the debtor after the account was paid.

Debit balances can appear in the Creditors ledger when the Creditor overpays the balance on their account or when goods have been returned to the Creditor after the account was paid.

Solution to question 2 (a)

Creditors

	€/\pounds		€/\pounds
Bank	3,400,000	Opening Balance	400,000
Rebate	100,000	Purchases	3,600,000
Balance c/d	<u>500,000</u>		
	<u>4,000,000</u>		<u>4,000,000</u>
		Balance b/d	500,000

Debtors

	€/\pounds		€/\pounds
Opening Balance	200,000	Sales Returns	20,000
Sales	4,000,000	Bank	3,940,000
	<u>4,200,000</u>	Balance c/d	<u>240,000</u>
			<u>4,200,000</u>
Balance b/d	240,000		

VAT

	€/\pounds		€/\pounds
Sales Return	4,000	Opening Balance	80,000
Bank	120,000	Sales	800,000
Machine	80,000	Rebate	20,000
Purchases	<u>720,000</u>		
	<u>924,000</u>	Balance c/d	<u>24,000</u>
			<u>924,000</u>
Balance b/d	24,000		

Solution to question 2 (a) continued on next page

Solution to question 2 (a) (Cont'd)

Bank

	€/£		€/£
Opening Balance	10,000	Creditors	3,400,000
Cash receipts	3,940,000	Machine	400,000
		VAT	120,000
		Balance c/d	30,000
	<u>3,950,000</u>		<u>3,950,000</u>
Balance b/d	30,000		

Sales

	€/£		€/£
Sales Returns	16,000	Sales	3,200,000
Balance c/d	<u>3,184,000</u>		<u>3,200,000</u>
	<u>3,200,000</u>		<u>3,200,000</u>
		Balance b/d	3,184,000

Machine

	€/£		€/£
Bank	<u>320,000</u>	Balance c/d	<u>320,000</u>
	<u>320,000</u>		<u>320,000</u>
Balance b/d	320,000		

Purchases

	€/£		€/£
Purchases	<u>288,000</u>	Balance c/d	<u>288,000</u>
	<u>288,000</u>		<u>288,000</u>
Balance b/d	288,000		

Rebates

	€/£		€/£
Balance c/d	<u>80,000</u>	Creditor rebate	<u>80,000</u>
	<u>80,000</u>		<u>80,000</u>
		Balance b/d	80,000

Solution to question 2 (b)

Value added tax is a tax imposed on goods and services by the government as part of their programme of collecting revenue. VAT is charged at different rates on different goods as determined by the finance acts of the jurisdiction in which you operate.

The general principle of VAT is that the end user pays. VAT is collected at each stage of the production and distribution chain.

Therefore the treatment of VAT in the accounts of a business should reflect their role as a collector of tax for the government and should not be included in income or expenditure whether of a capital or revenue nature.

There are exceptions to this principle as some goods are not taxable and some persons or businesses are exempt from VAT. Exempt businesses do not charge VAT on services, neither do they reclaim VAT paid on purchases.

Solution to question 3

(a) Ethical Issues for the accounting technician

Ethics in business refers to both individuals and organisations making decisions which are morally right honest and fair.

Ethics is to do with right and wrong, honesty and fairness. However these areas require individuals to make judgements sometimes without any clear guidance about what they should do in certain circumstances.

It is also true that actions and decisions may not break any law or rule but they may still be unethical, unfair and dishonest.

Unethical behaviour may result when there is exploitation of the workforce, when bribes are offered for decisions to be made, where larceny occurs, if products known to be unsafe are sold, To be truly accountable to stakeholders all accounting technicians must behave ethically and report issues which they consider to be unethical.

Ethics are the principles of right behaviour that guide decision making. These principles are based on values of responsibility, fairness, trustworthiness, respect, caring and citizenship. The general rule of ethics is to bring no physical or emotional harm to others.

The vast majority of accountants and accounting technicians do their jobs quietly and professionally only when they bend the rules do they make headlines, (Enron, WorldCom).

(b) Difference between Sole Trader, Partnership and Limited Company

Sole Trader

This is where one person is legally and personally responsible for the conduct of the business. The advantages of a sole trader are that they keep all the profits of the business, they make all the business decisions and they avoid excessive legal costs of setting up a business. However they suffer from having to carry all the losses if such occur, they are liable for all the debts of the business even if this means selling some personal property to pay for them and they are restricted in attracting extra capital for expansion.

Partnership

A partnership is a business run by between two and twenty people in order to make a profit. A partnership can start immediately if they operate under their own names but if they want to use a different name then they must be registered with the registrar of business names.

Partners do not have to have a written agreement when they go into partnership but its best if they do. If they don't everything is split equally.

The general partners are liable for the debts of the business and can be sued as a result of the actions of the business.

Advantages are it can be formed quickly, risks are shared, different expertises can be brought in quickly, accounts remain confidential, however, the disadvantages are unlimited liability, decision making can be slow, if a partner dies a new partnership has to be formed and disagreements can arise.

Limited Company

Limited companies came into existence out of a need for businesses to raise capital for expansion with minimum risk to investors. A company is a business owned by at least two people and the owners are called shareholders.

There is protection to investors in a limited company by the provisions of limited liability in the event of the company getting into trouble. Limited liability means limited to the investment put into the company, their personal assets are not in danger under this formation, unless there has been fraudulent or illegal trading at which point the courts may lift the veil of limited liability.

There are two types of limited company

Private Limited Company and Public Limited Company. A private limited company may have two but not more than fifty shareholders. A public Limited Company has at least seven shareholders.

Solution to question 3 continued on next page

Solution to question 3 (Cont'd)

(c) Financial Accounting

The objects of financial accounting are to record the value of the assets and liabilities of a business as well as increases and decreases in these assets and liabilities.

To record the amounts owed by Debtors and to Creditors. To record income and expenditure during the period.

To classify and summarise figures in similar manner each year so that they can be interpreted by those for whom they were prepared.

To satisfy the legal requirements of the country in which the business operates.

Financial information should be relevant, reliable, consistent and understandable.

(d) Management Accounting.

Management accounting involves planning, organising, controlling and making decisions in a particular environment.

Management accountants analyse, interpret, and then communicate the results to decision makers. Management accountants are internally focused, they look forward, they tend to be micro focused, they report regularly at short intervals and are not governed by legal requirements. They establish the cost of producing products, running departments and future costs of production. They prepare budgets, compare actual costs to budgeted costs and analyse differences.

(e) Auditing

This is the process where an independent firm of accountants reviews the financial accounts of a business and reports to the members of that firm their findings. Their main focus is to determine whether the accounts give a true and fair view of the transactions entered into by the business over the reported period. It is not a process to discover fraud in fact if you read the report of an auditor they clearly state that this is not the purpose of the audit. They report if the directors have discharged their responsibilities in accordance with the laws of the country in which the accounts are prepared.

Solution to question 4

(a) Trading Profit & Loss Statement as at 31/12/07

	£/€	£/€	£/€
Sales			745,980
Opening Stock	51,600		
Purchases	586,000		
Less Closing Stock	(66,500)		
Cost of Goods Sold			<u>571,100</u>
Gross Profit			174,880
Bad Debt recovered			300
Depreciation			
Buildings			
Machinery			
Delivery van			
Provision for bad debts			748
Salaries		89,200	
General Expenses		12,750	
Discounts received			700
Rent & rates		1,400	
Interest paid		2,600	
Insurance		7,800	
Depreciation			
Buildings		2,240	
Machinery		11,400	
Delivery Van		34,000	
			<u>161,390</u>
Net profit			<u>15,238</u>

(b) Balance Sheet as at 31/12/2007

Fixed Assets	Cost £/€	Acc Dep £/€	NBV £/€
Buildings	140,000	30,240	109,760
Machinery	124,000	59,400	64,600
Vehicles	50,000	50,000	0
	<u>314,000</u>	<u>139,640</u>	<u>174,360</u>
Current Assets			
Stock	66,500		
Debtors	<u>32,448</u>	98,948	
Current Liabilities			
Creditors	72,130		
Bank	7,270		
VAT	1,200		
PRSI	<u>3,700</u>	84,300	
Net Current Assets			<u>14,648</u>
Net Assets			<u>189,008</u>
Financed By			
Opening Capital		199,370	
Net profit		15,238	
Less Drawings		<u>(25,600)</u>	
			<u>189,008</u>

Notes

Stock	£/€	£/€
31/12/2007	65,900	
Less Damaged	(3,900)	
Add NRV	1,500	
Add Sale or return	<u>3,000</u>	
	<u>66,500</u>	
Sales		
Year		
Adjustment		749,580
Stock Cost	3,000	
Mark up	600	
Sales value		<u>3,600</u>
Actual Sales		<u>745,980</u>
Bank o/d		
Balance	6,300	
Underposted	270	
Bad Debt recovered	(300)	
Mrs Higgins	1,000	
	7270	
Creditors		
Balance	72,400	
Underposted	-270	
	72,130	
Drawings		
Balance	24,600	
Mrs Higgins	1,000	
	<u>25,600</u>	
Debtors		
Balance	37,400	
Less adj	<u>-3,600</u>	
	33,800	
Provision 4%	1,352	
Previous Provision	2,100	
Adjustment	<u>(748)</u>	
Closing Debtors	32,448	
Depreciation		
Buildings	140,000	
Less Acc Dep	<u>(28,000)</u>	
WDV at 2006	112,000	
Dep 2007	<u>2,240</u>	
NBV 2007	<u>109,760</u>	
Machinery	124,000	
Less Acc Dep	<u>(48,000)</u>	
WDV at 2006	76,000	
Dep 2007	<u>11,400</u>	
NBV 2007	<u>64,600</u>	
Vehicles	50,000	
Less Acc Dep	<u>(16,000)</u>	
WDV at 2006	34,000	
Dep 2007	<u>34,000</u>	
NBV 2007	<u>0</u>	

Solution to question 5

(a)

		Bank		
		£/€		£/€
Opening Balance	17,000		Bank Charges	2,000
Credit Transfer	6,400		Dishonoured Cheque	8,200
Dividend Received	4,000		Misposting	5,920
			Balance c/d	11,280
	<u>27,400</u>			<u>27,400</u>
Balance b/d	11,280			

(b)

Bank Account & Bank Reconciliation as at 31st March 2008

	£/€
Balance	18,280
Mislodged	7,000
Mislodged to Tim Jones	1,800
Corrected Bank Balance	<u>27,080</u>
Add Lodgements not credited	1,600
Less Cheques not presented	(17,400)
Reconciled balance	<u>11,280</u>

(c)

A bank reconciliation statement is prepared at a point in time in order to bring together / compare two different balances, namely the business bank account as presented in the books and the bank account balance as presented by your 3rd party bank.

A business prepares a bank reconciliation statement in order to check the accuracy of its bank account as kept in its own books. It also highlights for a business any items which have been transacted directly into the bank, like standing orders, bank charges, credit transfers which may not have been recorded in the businesses ledger.

On occasions it highlights errors which the bank may have made.

It also highlights timing differences between making payments / lodgements and those being transacted through the bank.

Solution to question 6

(a) Journal Entries

	DR	CR
	£/€	£/€
Suspense Account		2,100
Machinery a/c	2,100	
Suppliers (Creditors) a/c		21,000
Suspense	21,000	
Vehicle Account	21,000	
Suppliers (Creditors) a/c		21,000
Being correction of mispostings and errors in posting a purchase of a motor vehicle		
Suspense a/c		75
Machinery	75	
Purchases		98
Sales Returns	975	
Debtors		975
Suspense	98	
Being goods sold which were returned incorrectly posted in the books		
Drawings	1,650	
Debtors		1,650
Being adjustment to post the set-off of a personal debt against a company debt		
Creditors	6,000	
Drawings		6,000
Creditors	6,600	
Drawings		6,000
Discount		600
Being the adjustment required to post a contribution of capital used to pay off wages and creditors		
Creditors	3,600	
Purchase returns		3,600
Transport	450	
Purchase returns		450
Adjustment required to post the corrections for underposting a purchase return, not posting a charge imposed by the creditor.		

Solution to question 6 continued on next page

Solution to question 6 (Cont'd)

(b)

Suspense A/C

	£/€		£/€
Motor vehicle	21,000	Balance opening	18,923
Returned goods	98	Returned Goods	75
		Machinery a/c	2,100
	<u>21,098</u>		<u>21,098</u>

(c)

Net Profit Adjustment

	£/€		£/€
Sales Returns	975	Balance	9,450
Transport costs	450	Purchase returns	98
Balance c/d	97,823	Discounts received	600
	<u>99,248</u>	Purchase returns	4,050
			<u>99,248</u>
		Balance b/d	97,823

Balance Sheet as at 31 December 2007

Buildings	435,000	
Machinery	<u>137,175</u>	572,175
Current Assets		
Stock	147,000	
Debtors	124,298	
	<u>271,298</u>	
Current Liabilities		
Suspense	0	
Creditors	160,800	
Bank	69,000	
	<u>229,800</u>	
Net current assets		<u>41,498</u>
Net assets		613,673
Financed By		
Capital	525,000	
Profit	97,823	
Less Drawings	<u>(9,150)</u>	613,673

Solution to question 6 continued on next page

Solution to question 6 (Cont'd)

(c) (Cont'd)

Notes	£/€
Machinery	114,000
Adj Journal 2	95
Journal 1	2,100
Journal 1	21,000
	<u>137,195</u>
Debtors	
Balance	126,923
Journal 2	(975)
Journal 3	(1,650)
	<u>124,298</u>
Creditors	
Balance	135,000
Journal 1	42,000
Journal 4	(6,000)
Journal 4	(6,600)
Journal 5	(3,600)
	<u>160,800</u>
Drawings	
Balance	19,500
Journal 4	(6,000)
Journal 4	(6,000)
Journal 3	1,650
	<u>9,150</u>

NEW SYLLABUS

EXAMINERS REPORT FINANCIAL ACCOUNTING I Autumn 2008

Overall comment

This was the second paper under the new syllabus. Each question was set at a manageable level, however, clearly candidates struggled with questions 2,3,4 and 6.

Question 6 was very poorly answered with few candidates attempting it. This question was deliberately in the non-compulsory section on this paper, it might not be in the future.

The change in choices had an impact, as some candidates clearly ignored the compulsory instruction and did their own thing and answered questions 4,5, and 6.

The principles of accounting were examined in this paper and candidates should note that this is the focus of the syllabus.

Question 1

This was a question broken down into three parts, computation and two simple explanation parts which indicated whether candidates knew what they were doing and why, in the computation part.

The computation part was generally well answered with candidates showing competency in preparing the control accounts.

Part (b) was also well answered, however **part (c)** was very poorly answered with the majority of candidates unaware as to how and why a debit balance appears on the creditors account and why a credit balance appears on a debtors account.

The average mark obtained was 11.4, which is above average.

Question 2

The average mark obtained for this question, which asked candidates to complete the ledger accounts was a poor 6.9.

I was surprised at the number of candidates who calculated the VAT incorrectly which had knock on effects on all accounts. This was a question which asked candidates to calculate the VAT on a number of transactions and then to explain how and why a business accounts for VAT.

Part (b) of the question was generally well answered.

Question 3

A change in format asking candidates to complete a narrative as a compulsory question appears to have given candidates a view that more is best. I have preached over the years that a few succinct points is all that is needed in each section in order to get the full marks.

The ethical section was poorly answered with candidates clearly unaware of their ethical requirements. Candidates were very well versed in the distinction between Sole Trader, Partnership and Limited Companies but not so well aware of the distinction between management and financial accounting.

Very few candidates scored well on the auditing section. The average mark obtained for this question was 9.8.

Question 4

This was a trading Profit & Loss account with a small number of adjustments. For this question, which should be bread and butter for candidates the average mark obtained, was a disappointing 8.8.

The most common errors noted were:

- The treatment of the provision for bad debts proved to be a problem for nearly all candidates.
- Surprisingly the calculation of the depreciation charge proved difficult for candidates many leaving out the charge for the Vehicle in the P&L altogether.

Overall candidates were taken aback by the additional information which dealt with real issues a business would encounter on an ongoing basis.

Question 5

This question a very straight forward cash books and bank reconciliation question.

The type of errors noted were that many candidates adjusted the cash book for the bank errors, the fact that the bank opening balance was a credit balance while the cash book balance was a debit proved problematic for some.

The narrative part of the question was well answered.

The average mark obtained for this question was 11.9.

Question 6

This was probably the toughest question on the paper and deliberately put in the non compulsory section on this paper. The question combined journal entries, suspense account and an adjusted Profit and Loss statement and finally a Balance Sheet.

The average mark obtained for this question for the few that attempted it was 3.9.

There was nothing difficult with the question however it was that it mixed parts, which heretofore were questions on their own.

