Accounting Technicians Ireland

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Financial Accounting I

Autumn 2009

Paper, Solutions & Examiner's Report

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Accounting Technicians Ireland

(Formerly The Institute of Accounting Technicians in Ireland)

First Year Examination: Autumn 2009

Paper : FINANCIAL ACCOUNTING I

Tuesday 18th August 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 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 on Page 2 overleaf.

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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)*

The following data was extracted from the books of Geoff Hursty at 31st December 2008.

Trial Balance of Geoff Hursty as at 31st December 2008:	DR	CR
	€/£	€/£
Purchases & Sales	2,500,000	4,000,000
Buildings	1,200,000	
Plant & Machinery	380,000	
Fixtures & Fittings	225,000	
Motor vehicles	85,000	
Sales Returns	25,000	
Purchase Returns		14,000
Commission on Sales	8,000	
Rent & Rates	75,000	
Light & Heat	60,000	
Transport Costs of Good Inwards	36,000	
Stock 1/1/08	25,000	
Transport Costs of Good outwards	36,000	
Rent & Rates Due		6,000
Debtors & Creditors	125,000	260,000
Salaries	240,000	
Cleaning Costs	12,000	
Drawings	23,000	
Bank Interest Paid	1,200	
Bank Interest Received		35,000
Cash	59,800	
Bank O/D		96,000
Annual Insurance Cost	15,000	
Provision for Bad Debts		12,500
Provision for Depreciation:		
Buildings		120,000
Plant & Machinery		60,000
Fixtures & Fittings		25,000
Motor Vehicles		39,000
Capital		463,500
	5,131,000	5,131,000

You have been given the following information:

(i) Stock 31st December 2008 was valued at €/£35,000

(ii) The bank statement for month ended 31st December 2008, received on the 5/1/09 showed charges not posted to the bank account of €/£2,500.

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QUESTION 1 (*Cont'd)*

(iii) Depreciation is to be provided as follows:
 Buildings 2% Straight Line
 Plant & machinery 10% Straight Line
 Fixtures & Fittings 30% Reducing Balance
 Motor Vehicles 20% Straight Line

(iv) Provision for bad debts should be adjusted to 6% of debtors.

(v) Annual Insurance cost was for the year ended 30th April 2009.

(vi) Salaries due at year end €/£20,000.

Requirement

You are required to prepare the following:

(a) The Trading and Profit & Loss account for the year ended 31st December 2008, **12 Marks**
(b) The Balance Sheet as at 31st December 2008.
8 Marks
Total 20 Marks

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QUESTION 2 *(Compulsory)*

The following information was supplied to you by your client Robert Twig in respect of his transactions for the month of December 2008.

All transactions were on credit. VAT is chargeable at a rate of 20%.

Date	Transaction		€/£ (net of VAT)
01/12/2008	Purchased from J Kilbride	Invoice No. 3185	26,000
02/12/2008	Sold goods to P Lawlor	Invoice No. 2101	30,000
05/12/2008	Sold goods to G Hardy	Invoice No. 2102	50,000
10/12/2008	Purchased goods from Tom Myler	Invoice No. F0183	38,000
12/12/2008	Returned goods to J Kilbride	Credit Note No. CR158	14,000
20/12/2008	Purchased goods from Bob Numbers	Invoice No. N153	58,000
22/12/2008	Returns from G Hardy	Credit Note No. 3	8,000
27/12/2008	Sold goods to R Phillips	Invoice No. 2103	70,000
27/12/2008	Returned goods to Tom Myler	Credit Note No. CR159	16,000
28/12/2008	Returned goods to Bob Numbers	Credit Note CR160	20,000

Requirement

You are required to:

(a) Prepare the following books:

(i) Purchases
(ii) Purchases Returns
(iii) Sales
(iv) Sales returns

9 Marks

(b) Post all the entries to the appropriate ledger accounts.

7 Marks

(c) Extract the trial balance for Robert Twig as at 31 December 2008.

4 Marks
Total 20 Marks

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QUESTION 3 *(Compulsory)*

The following Trial Balance was extracted from the books of John Murphy on the 31st December 2008.

The Trial Balance of John Murphy as at 31st December 2008:

	DR	CR
	€/£	€/£
Bank	63,000	
Capital		1,308,000
Cash	6,000	
Creditors		75,000
Debtors	54,000	
Drawings	24,000	
Fixtures	48,000	
Motor Expenses	78,000	
Motor Vehicles	93,000	
Repairs to fixtures	12,000	
Premises	1,200,000	
Purchases	300,000	
Salaries	375,000	
Sales		900,000
Stock 1/1/08	30,000	
	2,283,000	2,283,000

You are provided with the following additional information:
Ignore depreciation.

Stock at 31st December 2008 is €/£45,000.

You are required to:

Prepare the Trading Profit & Loss account for the year ended 31st December 2008 and the Balance Sheet as at 31st December 2008.

8 Marks

After preparing the Trading Profit & Loss account and balance sheet for 31st December 2008 the following information came to light:

(i) A motor vehicle purchased for €/£42,000 had been entered in the motor expenses account in error.

(ii) Included in Premises is €/£15,000 posted from Repairs to Premises in error.

(iii) Motor expenses included a charge of €/£5,000 incurred by John Murphy personally (annual holiday)

Requirement

You are now required to:

(a) Prepare journals to correct these errors.

3 Marks

(b) Prepare the Trading Profit & Loss account for the year ended 31st December 2008 and the Balance Sheet as at 31st December 2008 after the journals.

8 Marks

(c) Explain what impact journalising these adjustments had on both the Trading Profit & Loss account and the Balance Sheet for John Murphy.

1 Mark

Total 20 Marks

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SECTION B

Answer ANY TWO of the three questions in this Section

QUESTION 4

The Debtors Ledger control account of Reise Jones as at 31st December 2008 showed the following balances €/£79,266 Dr. and €/£1,332 Cr.

These balances did not agree with the list of debtors balances extracted on that date €/£74,790.

An examination of the books of Reise Jones revealed the following:

(1) Reise Jones had accepted returns of €/£1,200 from a customer and entered them correctly in the books. He subsequently decided that a restocking charge of 12% was to be charged to the customer. This restocking charge was posted to the credit of the customer's personal account only.

(2) A credit note was sent to a customer for €/£732. The only entry made in the books was €/£132 debited to the customers account.

(3) Cash sales €/£300 and credit sales €/£ 600 posted correctly in the Sales book but both had been entered by Reise Jones on the credit of a debtors account.

(4) Reise Jones had charged a customer interest on an overdue account amounting to €/£279. The only entry made in the books was a credit of €/£117 to the debtors account.

After a discussion with the debtor and payment in full of the original balance the interest charge was reduced to €/£150. No entry was made in respect of this reduction in the books.

(5) A cheque for €/£1,200 received from a debtor in full settlement of a debt of €/£1,430 had been entered in the books, however the cheque was dishonoured. No record had been made in the books regarding the dishonoured cheque.

(6) Reise Jones had sent an invoice to a customer for €/£1,650. This had been entered in the appropriate day book as €/£1,515, when posting from this book to the ledger. No entry had been made in the personal account.

Requirement

You are required to show the following:

(a) Adjusted debtors ledger control account

10 Marks

(b) Adjusted schedule of debtors.

10 Marks
Total 20 Marks

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QUESTION 5

OREGON TRANSPORT prepares its financial accounts to 31st December each year. The company's policy is to depreciate its vehicles from the month of purchase to the month preceding the month of sale/disposal.

Depreciation rate used by OREGON TRANSPORT is 20% straight line.

On the 1st January 2008 OREGON TRANSPORT had the following vehicles.

Vehicle	Date of purchase	Residual value	Cost
		€/£	€/£
No. 1	1st January 2006	0	80,000
No. 2	1st July 2006	15,000	75,000
No. 3	1st December 2007	0	96,000

You have been provided with the following information by OREGON TRANSPORT:

(i) On the 1st July 2008 **Vehicle No. 1** was traded in for €/£32,000 against a new vehicle costing €/£93,000, (no residual value). **Vehicle No. 1** had modifications done to it on 1st January 2007 costing €/£15,000, (no residual value). These modification had been depreciated at a rate of 40% in year one and thereafter at a rate of 20% Straight Line.

(ii) On the 1st September 2008 **Vehicle No. 3** was crashed and traded in against a new vehicle costing €/£120,000 (no residual value). OREGON TRANSPORT claimed against its insurance policy and recouped compensation to the vale of €/£25,000. The amount paid by cheque for the new vehicle was €/£80,000.

Requirement

You are required to show with workings for each of the years 2006, 2007 and 2008:

(a) Vehicle Account
6 Marks

(b) The Provision for Depreciation account
6 Marks

(c) The vehicle Disposal Account.
8 Marks
Total 20 Marks

QUESTION 6

Write a short note to a client dealing with the following points:

(1) What are the objectives of Financial Statements.
4 Marks

(2) Briefly explain what is meant by the business entity concept.
4 Marks

(3) Briefly outline the differences between Management and Financial accounting.
4 Marks

(4) Explain the accountant's role in an organisation.
4 Marks

(5) Explain what is meant by an Imprest System of Petty Cash.
4 Marks
Total 20 Marks

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1st Year Examination: Autumn 2009

Financial Accounting I

Solutions

Question 1 - Solution
(a)

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

Sales	**W1**			3,975,000
Cost of Sales				
Opening Stock			25,000	
Purchases	**W2**	2,486,000		
Carriage in		36,000		
			2,522,000	
			2,547,000	
Closing Stock			-35,000	
Cost of Goods Sold				2,512,000
Gross Profit				1,463,000
Expenses				
Commission			8000	
Rent & Rates			75000	
Light & Heat			60000	
Goods despatched			36000	
Salaries	**W3**		260000	

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QUESTION 1 (*Cont'd)*

Cleaning		12000	
Bank Charges	**W4**	2500	
Bank Interest		1200	
Insurance	**W5**	10000	
Interest Received		-35000	
Depreciation	**W6**	139000	
Provision for Bad Debts	**W7**	-5000	
			563700

Solution 1 (cont'd)

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(b)

Balance Sheet as at 31 December 2008

Fixed Assets		Cost	Dep	NBV
Buildings		1,200,000	144,000	1,056,000
P&M		380,000	98,000	282,000
Fix&Fits		225,000	85,000	140,000
Motor Vs		85,000	56,000	29,000
		1,890,000	383,000	1,507,000
Current Assets				
Debtors	**W7**	117,500.00		
Cash		59,800.00		
Stock		35,000.00		
Insurance Prepaid	**W5**	5,000.00		
			217,300.00	
Current Liabilities				
Creditors		260,000.00		
Salary Accrual		20,000.00		
Rent & Rates due		6,000.00		
Bank Overdraft	**W4**	98,500.00		
			384,500.00	
Net Current Liabilities				-167,200.00
Total Net Assets				**1,339,800.00**
Financed By				
Capital				463,500.00
Net Profit				899,300.00
Less Drawings				-23,000.00
				1,339,800.00

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Workings

W1

Sales	4,000,000
Sales Returns	-25000
	3,975,000

W2

Purchases	2,500,000
Purchases Returns	-14,000
	2,486,000

W3

Salaries	240000
Salaries Due	20000
	260000

W4

	Dr	Cr
Bank Charges	2500	
Bank Account		2500
Overdraft per TB		96000
Revised Figure		98500

W5

Insurance	15000
Prepaid	-5000
(15,000/12*4)	
	10000

W6

	Cost	Accum to 01/01/08	Charge 2008	Total Accum	NBV 31/12/08
Buildings	1,200,000	120,000	24,000	144,000	1,056,000
P&M	380,000	60,000	38,000	98,000	282,000
Fix&Fits	225,000	25,000	60000	85,000	140,000
Motor Vs	85,000	39,000	17000	56,000	29,000
	1,890,000	244,000	139,000	383,000	1,507,000
Buildings	1200000			2%	24,000
P&M	380,000			10%	38,000
Fix&Fits	225,000	-25,000	200,000	30%	60,000
Motor Vs	85,000			20%	17,000

W7

Bad Debts Provision	12,500	Debtors	125,000
6% of Debtors	7,500		
(125,000/100*6		New Prov	-7500
Provision Reduction	5,000	Adj Debtors	117,500

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Question 2 - Solution

Part A

Purchases Day Book

Date	Particulars	Inv No.	Gross €/£	VAT €/£	Net €/£
01/12/2008	J Kilbride	3185	31,200	5,200	26,000
10/12/2008	Tom Myler	F0183	45,600	7,600	38,000
21/12/2008	Bob Numbers	N153	69,622	11,600	58,000
			146,422	**24,400**	**122,000**

Purchases Returns

10/12/2008	Tom Myler	Cr158	16,800	28,000	14,000
27/12/2008	Tom Myler	Cr159	19,200	32,000	16,000
28/12/2008	Bob Numbers	Cr160	24,000	40,000	20,000
			60,000	**100,000**	**50,000**

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QUESTION 2 *(Cont'd)*

Sales Day Book

02/12/2008	P Lalor	2101	36,000	6,000	30,000
05/12/2008	G Hardy	2102	60,000	10,000	50,000
27/12/2008	R Phillips	2103	84,000	14,000	70,000
			180,000	**30,000**	**150,000**

Sales Returns

22/12/2008	G Hardy	3	9,600	1,600	8,000
			9,600	**1,600**	**8,000**

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QUESTION 2 *(Cont'd)*

Part B

Sales Account

			31/12/2008	Sales Day Book	150,000

Sales Returns

31/12/2008	Sales Returns Book	8,000			

Purchases Account

31/12/2008	Purchases Day Book	122,000			

Purchases Returns

			31/12/2008	Purchases Returns	50,000

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QUESTION 2 *(Cont'd)*

VAT Control Account

31/12/2008	Purchases Book	24,400	31/12/2008	Sales Day Book	30,000
31/12/2008	Sales Returns	1,600	31/12/2008	Purchases Returns	10,000
31/12/2008	Balance c/d	14,000			
		40,000			40,000
			01/01/2009	Balance b/d	14,000

Creditors Control Account

31/12/2008	Purchases Returns	60,000	31/12/2008	Purchases Day Book	146,400
31/12/2008	Balance c/d	86,400			
		146,400			146,400
			01/01/2009	Balance b/d	86,400

Debtors Control Account

31/12/2008	Sales Day Book	180,000	31/12/2008	Sales Returns Book	9,600
			31/12/2008	Balance c/d	170,400
		180,000			180,000
01/01/2009	Balance b/d	170,400			

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QUESTION 2 *(Cont'd)*

Part C

Trial Balance as at 31 December 2008	**DR**	**CR**
Sales		150000
Sales Returns	8000	
Purchases	122000	
Purchases Returns		50000
VAT Control Account		14000
Debtors Control Account	170400	
Creditors Control Account		86400
	300400	300400

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Question 3 - Solution

Part A			**Part B Journals**		**Part C**	
Trading & Profit & Loss Account for the year ended 31 December 2008			**Dr**	**Cr**		
Sales		900000				900000
Cost of Sales						
Opening Stock	30000				30000	
Purchases	300000				300000	
	330000				330000	
Less Closing Stock	-45000	285000			-45000	285000
Gross Profit		615000				615000
Expenses						
Motor Expenses	78000			47000	31000	
Repairs	12000		15000		27000	
Salaries	375000	465000			375000	433000
		150000				182000

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Question 3 – Solution *(Cont'd)*

Balance Sheet as at **31-Dec-08**

Fixed Assets								
Premises			1200000		15000			1185000
Fixtures			48000					48000
Motor Vehicles			93000	42000				135000
			1341000					1368000
Current Assets								
Stock	45000					45000		
Cash	63000					63000		
Bank	6000					6000		
Debtors	54000	168000				54000	168000	
Current Liabilities								
Creditors	75000	75000				75000	75000	
Net Current Assets			93000					93000
Net Assets			1434000					1461000
Financed By								
Capital			1308000					1308000
Profit & Loss			150000					182000
Less Drawings			-24000	5000				-29000
			1434000	62000	62000			1461000

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Question 3 – Solution
(Cont'd)

Part B	**Journals**		**DR**	**CR**
Motor Vehicles		B/S	42000	
Motor Expenses		P&L		42000
Repairs		P&L	15000	
Premises		BS		15000
Drawings		B/S	5000	
Motor Expenses		P&L		5000
			62000	62000

Part D

1 Period profit rises by €32,000

2 Net assets increased by €27,000 - (€42,000 - €15,000)

3 This is balanced by increased profit (Credit) of €32,000 & increased drawings (Debit) of €5,000

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Question 4 - Solution

Debtors Control Account

Balance		79266	Balance	1332
Restocking Charge	**W1**	144	Credit Note	732
Interest Charge	**W2**	150		
Dishonoured Cheque	**W3**	1430	Adjusted Balance	**79061**
Understated Invoice	**W4**	135		
		81125		81125

W1	1200*12%	144
W2	Reduced int charge	279
	(per note 4 in Q)	-129
		150
W3	Dishonoured Cheque	1200
	Discount on settling	230
		1430
W 4	See note 6 in Q	1650
		-1515
		135

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Question 4 – Solution *(Cont'd)*

Balance per Debtors Listing	74790	
	288	Restocking Charge 144 posted as Credit should have been Debit
	-132	Cancellation of Credit note posted as debit
	-732	Correct credit note entered
	300	Add back cash which does not relate to debtors
	1200	Sale €600 entered as Credit should have been debit (600+600)
	279	Add original interest charge to customer account per Note 4 in Q
	117	Debit (add back) original entry off €117 which was entered as credit
	-129	Reduce interest charge from €279 to €150 as agreed with debtor
	1430	See W 3
	1650	Invoice not posted to individual debtor's account per Note 6 in Q
Adjusted Balance	**79061**	

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Question 5 - Solution

	Vehicle 1	Vehicle 2	Vehicle 3	Vehicle 4	Vehicle 5	Totals
Purchase Date	01-Jan-06	01-Jul-06	01-Dec-07	01-Jul-08	01-Sep-08	
Cost	80,000	75,000	96,000	93,000	120,000	464,000
Additions - 01/01/07	15,000					15,000
Disposals	-95,000		-96,000			-191,000
	0	**75,000**	**0**	**93,000**	**120,000**	**288,000**
Accumulated Dep'n						
2006	16,000	6,000				22,000
2007	22,000	12,000	1,600			35,600
2008	9,500	12,000	12,800	9,300	8,000	51,600
Disposals						
2006						0
2007						0
2008	-47,500		-14,400			-61,900
	0	**30,000**	**0**	**9,300**	**8,000**	**47,300**
Net Book Value	**0**	**45,000**	**0**	**83,700**	**112,000**	**240,700**

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Question 5 – Solution *(Cont'd)*

Disposals

01/07/2008	95,000	Trade in Veh 1	32,000
		Veh.1 Acc.Depn	47,500
		Loss	15,500
01/09/2008	96,000	Insurance Claim	25,000
		Trade In	40,000
		Veh.3 Acc.Depn	14,400
		Loss	16,600
	191,000		191,000

Bank

Veh.1	32000		
Veh.3	25000		

P & L Account

Veh.1 Loss	15,500		
Veh.3 Loss	16,600		

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Question 5 - Solution *(Cont'd)*

VEHICLE ACCOUNT

01/01/2006	Veh 1	80,000	31/12/2006	Balance c/d	155,000
01/07/2006	Veh 2	75,000			
		155,000			155,000
01/01/2007	Balance b/d	155,000	31/12/2007	Balance c/d	266,000
01/01/2007	Modifications V 1	15,000			
01/12/2007	Additions V 3	96,000			
		266,000			266,000
01/01/2008	Balance b/d	266,000	01/07/2008	Disposal Veh 1	95,000
01/07/2008	Additions V 4	93,000	01/09/2008	Disposal Veh 3	96,000
01/09/2008	Additions V 5	120,000	31/12/2008	Balance c/d	288,000
		479,000			479,000
01/01/2009	Balance b/d	288,000			

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Question 5 – Solution *(Cont'd)*

Provision(Accumulated) Depreciation Account

31/12/2006	Balance c/d	22,000	31/12/2006	Annual Charge	22,000
		22,000			22,000
31/12/2007	Balance c/d	57,600	01/01/2007	Balance b/d	22,000
			31/12/2007	Annual Charge	35,600
		57,600			57,600
01/07/2008	Disp. Veh 1	47,500	01/01/2008	Balance b/d	57,600
01/09/2008	Disp. Veh 3	14,400	31/12/2008	Annual Charge	51,600
31/12/2008	Balance c/d	47,300			
		109,200			109,200
			01/01/2009		47,300

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Question 6 - Solution

1. Objectives of Financial Statements

Financial statements is a summary of how a business performed over a period and provide the reader with a snap shot of the assets and liabilities of the business as at the balance sheet date.

The objectives of financial statements are to provide information about a reporting entity's financial performance and financial position. Financial Statements are useful to a wide range users/stakeholders for assessing the stewardship of the entity's management for making decisions.

The intent of financial statements is to provide information useful in economic decision making. In particular, the data should be useful in making investment and credit decisions. Financial statements should provide a reliable indication of a company's financial position, operating results, and changes in financial position. Also, statement components and categories should aid in decisions. Financial statements may provide information in addition to that specified by various authorities and regulatory obliged groups. In as much as management knows most about the business is encouraged to identify certain circumstances and explain their financial effects on the enterprise.

2. The Business Entity Concept

An organisation or part of an organisation that for accounting purposes stands apart as a separate economic unit.

Usually a business entity is regarded as separate from its owners and accounting information should be restricted to the transactions that affect the entity itself.

A business entity treats transactions with its owners in an arms length way as monies and assets introduced into a business by the owners is recorded as a liability of the business and recorded as capital while goods, cash or assets taken from the business are recorded as drawings and reduce the capital introduced and thereby the liability of the business to the owners.

3. Difference between Management and Financial Accounting

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 owned by Debtors and 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.

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Question 6 – Solution *(Cont'd)*

Management Accounting

Management accounting involves planing, 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 and they tend to be micro focused. They report regularly at short intervals and are not governed by legal requirements. They establish cost of producing products, running departments and future costs of production. They prepare budgets. Compare actual costs to budgeted costs and analyse differences.

4. The accountants role and function in the organisation

The role of the accountant in an organisation is primarily to record all the financial transactions entered into by the business during the accounting period.
By recording the transactions an assessment may be made of the performance of the business during the period. An accountant must comply with accounting conventions when recording financial transactions.

5. Imprest system of petty cash

An imprest system of petty cash means that the Petty Cash general ledger account will remain at a set amount from period to period. For example, if the petty cashier is entrusted with €/£ 100, then the Petty Cash account will always report a debit balance of €/£ 100.
This €/£ 100 is the imprest balance. As long as €/£ 100 is adequate for the organisation's small disbursements, then the general ledger account Petty Cash will never have an entry again.
When the money in the petty cash box gets low, the petty cashier will request a cheque to replenish the funds that were disbursed. Since the requested cheque is drawn on the organisation's bank account, the bank account (not the Petty Cash account) will be credited. The debits will go to the expense accounts indicated by the petty cash receipts, e.g. postage expense, supplies expense. In other words, the Petty Cash general ledger account is not involved in the replenishment. (Replenishment means getting the total of the funds in the petty cash box back to €/£ 100).

Under the imprest system, the petty cashier should at times have a combination of coins, currency, and petty cash receipts equal to €/£ 100, the imprest amount.

Control occurs through the review of the petty cash receipts attached to each cheque request for replenishment. It also occurs by occasionally confirming that the items in the petty cash box do indeed add up to the imprest amount.

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1st Year Examination: Autumn 2009

Financial Accounting I

Examiner's Report

The total number of students sitting the examination was 491.

The numbers answering each question were as follows:

Question 1	478 attempted with an average mark of 13.58
Question 2	484 attempted with an average mark of 11.96
Question 3	473 attempted with an average mark of 13.16
Question 4	324 attempted with an average mark of 7.34
Question 5	250 attempted with an average mark of 6.96
Question 6	312 attempted with an average mark of 9.63

Overall average 10.50

140 students failed to reach the pass mark of 50, or on a positive note
351 students or 71.5% were successful.

Overall Comments

The level of presentation overall was poor. This is understandable in an exam situation, hence no marks were deducted. However, presentation can constitute up to 10% of marks in each question and where a student's marks are marginal, examiners will often use discretion to award that extra mark, or perhaps even two, to bring the student to the required level if it is felt that the solution was neatly and professionally presented.

Despite being told by tutors, probably ad nauseum, throughout the terms, not to use both sides of the paper, it is incredible the number of students who ignore this instruction. The same can be said for the use of coloured pens and the use of pencils.

However, more frustrating and infuriating from an examiners viewpoint, is the student who insists on starting each question immediately following the one before, i.e. without a page break. Unfortunately, this was not an isolated occurrence and a considerable number of students were guilty.

It is important that students read the questions carefully and having done so, that he/she answers the question asked rather than the one they would like to answ

Basic Errors

- Not putting exam numbers on answer sheets
- Not numbering answer sheets properly despite each answer sheet having a box specifically for this purpose
- Proper correlation of questions, i.e. questions answered placed in the folder in numerical order with each question having all the parts relating to that question together and, given that most questions are

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asked in a,b,c etc. order, there is no reason why answers should not follow the same pattern. It is for this reason that time is given at the end of the examination when the call has gone out from the invigilator to cease writing.

Question 1

As can be seen, from the average mark attained, this question was very well answered. However, the following areas were, for a number of students, problematic.

Poor understanding of the calculation of Cost of Sales, where many students added closing stock instead of deducting, this error then also manifested itself in Question 3.

The layout of Fixed Assets in the Balance Sheet was poorly presented by a number of candidates.

Where negative figures were used, a number of students failed to gain marks by virtue of not highlighting this negativity by the use of brackets and often then, under exam pressure, ADDED the resultant figures instead of SUBTRACTING

Surprisingly there was considerable misunderstanding about the correct handling of Purchases & Sales Returns.

The bad debts figure was to be adjusted to 6% of Debtors.
The resultant figure was €7,500 which gave rise to an adjustment of €5,000, i.e. €12,500 - €7,500. Remember, this represented a reduction in the Bad Debt provision which would have reduced expenses and was one of the figures where the, previously mentioned, brackets would have been used.

Question 2

Again, this question was reasonably well answered overall.

However, it is important to recognise, if only by rote, that Sales in the P& L account are credits. By natural reasoning, everything else follows on, i.e. Purchases (the opposite, will be debits) ergo Sales Returns will be debits and Purchase Returns will be credits etc.

A number of students did not read the information given in the question properly, in that, they failed to recognise that the figures given in relation to Purchases, Sales etc were NET of VAT. A rather stupid mistake given that the examiner had placed the information in bold above the € amounts.

Where this error occurred, there was no negative marking but no marks or a reduced marking was awarded. However, if students, although having miscalculated the amounts in the question, then proceeded to use these amounts properly in the balance of the question, the marks which would have applied were awarded.

It is amazing the number of students who reversed entries, i.e. debited Sales and credited purchases, and even where this did not happen made all the correct numerical entries in the VAT account but unfortunately entered them on the wrong side.

Candidates need to note the following carefully:

Sales and Purchases (whether for resale or not), are NET OF VAT, hence the same applies to Sales Returns and Purchases Returns. (However where an entity is exempt, no VAT is charged on Sales and, input VAT, i.e. VAT on Purchases, may not be reclaimed thus the VAT inclusive purchase price will be used).

Debtors and Creditors are inclusive of VAT.

Many candidates prepared individual creditor and debtor accounts which was a waste of precious time as these were not asked for in the question.

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Question 3

Again, this question was reasonably well answered. However, overall there were far too many basic errors.

Profit & Loss and Balance Sheet layout can be learned as templates and thus there should be no excuse for poor presentation.

Too many students included Capitol Assets under expenses and vice versa.

Cost of Sales
= Opening Stock
+ Purchase
- (minus) Closing Stock

and the resultant figure is DEDUCTED from Sales to give Gross Profit.

Where closing stock is an integral part of Cost of Sales it will then appear in the current assets section of the Balance Sheet.

(Remember the Golden Rule of Accounting – for every debit there must be a corresponding credit).

What was incredible was the fact that where some students made these errors in part (a) of the question they managed to correct them then when preparing the revised P & L and Balance Sheet.

Journal preparation overall was reasonable but far too large a proportion of students handled them very badly.

Again, there is a need to recognise Dr.& Cr., what account is being affected and how. In this question there was no need for Suspense Accounts so why they were used defies comprehension.

The recognition of which accounts were affected, and how, would have enabled most students who got them right to earn extra marks for the effect on the P & L and Balance Sheet.

Question 4

Very poorly answered

(a) Despite the fact that figures were given in the question a number of people got them wrong.

Recognition of Sales as Credits again caused problems as a good number of candidates debited the Sales figures.

A number of candidates credited the incorrect credit note amount i.e. €600 instead of €732.

A number of candidates, despite placing opening balances correctly, proceeded to mix debits and credits afterwards.

(b) More than a few candidates started with a Sales figure of €1,800 (it should have been €600 + €600 + 300 = €1,500), this might have been a totting error but because there was no indication of how €1,800 was arrived at, no marks were awarded.(again highlighting the need to show workings clearly)

The interest figure caused confusion {€279, (€129), €119} and were either added or subtracted incorrectly.

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Question 5

It became very readily apparent which candidates understood what was being asked. It was either answered very well, or very badly, hence the very low average mark.

Many students either missed (or omitted) the €15,000 modifications to Vehicle 1 in the Disposals & Vehicle accounts.

Depreciation calculations caused problems for many candidates.
It was amazing the number of students who missed the fact that there were further purchases of 4th and 5th vehicles.

Sadly, as with a good proportion of the other questions the technical term was not applied.
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Question 6

The best answered of the questions of choice.

(a) For the most part the candidates had a reasonable understanding of the objectives of Financial Statements.

(b) To say that candidates' understanding of separate legal entity left a lot to be desired is understating the case.

(c) Some of the answers here were comical i.e. "management accounting was about people and financial accounting was about figures".

(d) Reasonably answered, but some candidates (despite exhortations generally to be brief) were a little too brief and some answers needed to be expanded a little.

(e) Quite a bit of rambling (I'm being kind – a lot of waffle) but for all that a good number got the general idea.

I cannot understand how candidates generally fare badly in narrative questions. There are certain things which are basic and to which I am sure tutors direct students as being of importance and, if researched and read properly, should be a banker and an easy area in which to acquire marks.