



Financial Accounting I

Autumn 2009

Paper, Solutions & Examiner's Report



st. StudentBounts.com



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Autumn 2009





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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StudentBounty.com 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 31 st 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
	<u>5,131,000</u>	<u>5,131,000</u>

You have been given the following information:

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

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



- (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 \notin £20,000.

Requirement

QUESTION 1 (Cont'd)

You are required to prepare the following:

(a) The Trading and Profit & Loss account for the year ended 31st December 2008, 12 Marks

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(b) The Balance Sheet as at 31^{st} December 2008.

<u>8</u> Marks Total <u>20</u> Marks

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QUESTION 2 (Compulsory)

StudentBounty.com 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:

- Prepare the following books: **(a)**
 - (i) Purchases
 - (ii) Purchases Returns
 - (iii) Sales
 - (iv) Sales returns 9 Marks
- **(b)** Post all the entries to the appropriate ledger accounts. 7 Marks Extract the trial balance for Robert Twig as at 31 December 2008. (c) 4 Marks

Total <u>20 Marks</u>

Financial Accounting I **QUESTION 3** (*Compulsory*) Autumn 2009

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

The Trial Balance of John Murphy as	s at 31 st December 20	08:
	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	<u>2,283,000</u>

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

Stock at 31^{st} December 2008 is \notin £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:

- A motor vehicle purchased for €/£42,000 had been entered in the motor expenses account in error. (i)
- Included in Premises is €/£15,000 posted from Repairs to Premises in error. (ii)
- (iii) Motor expenses included a charge of \notin £5,000 incurred by John Murphy personally (annual holiday)

Requirement

You are now required to:

(a) Prepare journals to correct these errors.

3 Marks

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

8 Marks

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

1 Mark Total <u>20 Marks</u>

Autumn 2009 **SECTION B**

Answer ANY TWO of the three questions in this Section

QUESTION 4

st Yearbounts-com 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:

- Reise Jones had accepted returns of €/£1,200 from a customer and entered them correctly in the books. He (1)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 $\notin \pounds$. The only entry made in the books was $\notin \pounds$ 132 debited to the customers account.
- Cash sales €/£300 and credit sales €/£ 600 poted correctly in the Sales book but both had been entered by (3) 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 deltors 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.

- A cheque for €/£1,200 received from a debtor in full settlement of a debt of €/£1,430 had been entered in the (5) books, however the cheque was dishonoured. No record had been made in the books regarding the dishonoured cheque.
- Reise Jones had sent an invoice to a customer for €/£1,650. This had been entered in the appropriate day (6) 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:

- Adjusted debtors ledger control account (a)
- **(b)** Adjusted schedule of debtors.

10 Marks

10 Marks Total 20 Marks

Financial Accounting I **QUESTION 5**

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StudentBounts.com 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	1 st January 2006	0	80,000
No. 2	1 st July 2006	15,000	75,000
No. 3	1 st December 2007	0	96,000

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

- On the 1st July 2008 Vehicle No. 1 was traded in for €/£32,000 against a new vehiclecosting €/£93,000, (no (i) 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.
- On the 1st September 2008 Vehicle No. 3 was crashed and traded in against a new vehicle costing €/£120,000 (ii) (no residual value). OREGON TRANSPORT claimed against its insurance policy and recouped compensation to the vale of \notin £25,000. The amount paid by chequefor the new vehicle was \notin £80,000.

Requirement

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

(a)	Vehicle Account	
(b)	The Provision for Depreciation account	6 Marks
(c)	The vehicle Disposal Account.	6 Marks
(0)	The venicle Disposal Account.	<u>8</u> Marks
		Total <u>20</u> Marks

QUESTION 6

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

(1)	What are the objectives of Financial Statements.	
(2)	Briefly explain what is meant by the business entity concept.	4 Marks
		4 Marks
(3)	Briefly outline the differences between Management and Financial accounting	g. 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
		<u>4</u> Marks Total <u>20</u> Marks

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StudentBounts.com 1st Year Examination: Autumn 2009

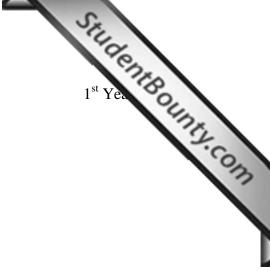
Financial Accounting I

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	
	-	2,522,000	
Closing Stock		2,547,000 -35,000	
Cost of Goods Sold	-	-55,000	2,512,000
Cost of Coods Sold			2,312,000
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

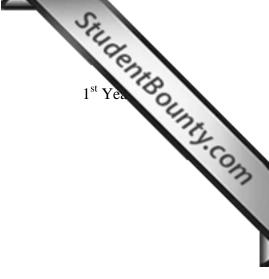
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Solution 1 (cont'd)

Balance Sheet as at 31 December 2008

					S.	
					ilde	
Financial Accounting	ng I	A	utumn 2009		1 st Yea	
(b)						(I)r
Balance Sheet as at 3	31 Decemb	er 2008				unky.com
Fixed Assets		Cost	Dep	NBV		
Buildings P&M		1,200,000 380,000	144,000 98,000	1,056,000 282,000		1
Fix&Fits Motor Vs		225,000 85,000	85,000 56,000	140,000 29,000		-
		1,890,000	383,000	1,507,000		
Current Assets						
Debtors Cash Stock	W7	117,500.00 59,800.00 35,000.00				
Insurance Prepaid	W5	5,000.00	217,300.00			
Current Liabilities						
Creditors Salary Accrual Rent & Rates due Bank Overdraft	W4	260,000.00 20,000.00 6,000.00 98,500.00				
Net Current Liabilities			384,500.00	-167,200.00		
Total Net Assets				1,339,800.00		
Financed By						
Capital Net Profit				463,500.00 899,300.00		
Less Drawings				-23,000.00		

1,339,800.00

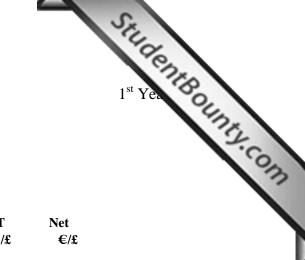


Workings

W1	Sales Sales Returns	4,000,000 -25000 3,975,000		
W2	Purchases Purchases Returns	2,500,000 -14,000 2,486,000		
W3	Salaries Salaries Due	240000 20000 260000		
W4	Bank Charges Bank Account		Dr 2500	Cr 2500
	Overdraft per TB Revised Figure			96000 98500
W5	Insurance Prepaid (15,000/12*4)	15000 -5000 10000		

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W6	Buildings P&M Fix&Fits Motor Vs	Cost 1,200,000 380,000 225,000 85,000	Accum to 01/01/08 120,000 60,000 25,000 39,000	Charge 2008 24,000 38,000 60000 17000	Total Accum 144,000 98,000 85,000 56,000	NBV 31/12/08 1,056,000 282,000 140,000 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 6% of Debt		12,500 7,500		Debtors	125,000
	(125,000/1	00*6	,		New Prov	-7500
	Provision F	Reduction	5,000		Adj Debtors	117,500

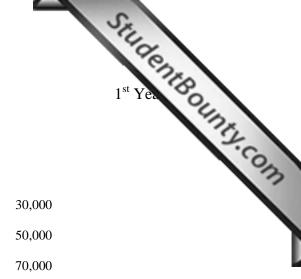


Question 2 - Solution

Part A

Purchases Day Book

Date	Particulars	Inv No.	Gross €/£		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

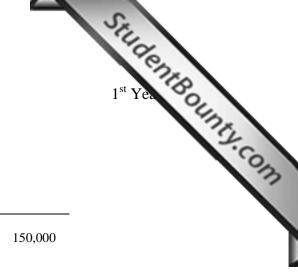


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QUESTION 2 (Cont'd)

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



Financial Accounting I

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 Pu	ırchases Day Book	122,000	

Purchases Returns

31/12/2008	Purchases Returns	50,000

Financial Accounting I

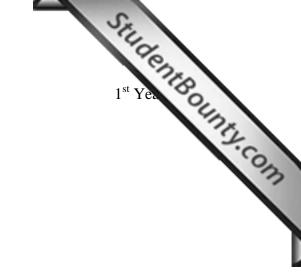
QUESTION 2 (Cont'd)

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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			
		<u>40,000</u>			<u>40,000</u>
			01/01/2009	Balance b/d	14,000

		Creditors (Control Accourt	nt	
31/12/2008	Purchases Returns	60,000	31/12/2008	Purchases Day Book	146,400
31/12/2008	Balance c/d	86,400			
		<u>146,400</u>			146,400
			01/01/2009	Balance b/d	86,400

		Debtors C	ontrol Account	I	
31/12/2008	Sales Day Book	180,000	31/12/2008	Sales Returns Book	9,600
			31/12/2008	Balance c/d	170,400
		<u>180,000</u>			<u>180,000</u>
01/01/2009	Balance b/d	170,400			



Financial Accounting I QUESTION 2 (Cont'd) Autumn 2009

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

Question 3 - Solution

						StudentBounts.co	
Question 3 - Solution						.6	2
Part A			Part B.	Journals	Part C		2
Trading & Profit & Loss Account f	for the year ended 31 De	cember 2008	Dr	Cr			
Sales		900000				900000	
Cost of Sales							
Opening Stock Purchases	30000 <u>300000</u> 330000				30000 300000 330000		
Less Closing Stock	-45000	285000			-45000	285000	
Gross Profit		615000				615000	
Expenses							
Motor Expenses Repairs Salaries	78000 12000 375000	465000	1500	47000 00	31000 27000 375000	433000	
Summes		150000				182000	

Financial Accounting I		Autumn 2009		Studen	Bount
Question 3 – Solution (<i>Cont'd</i>) Balance Sheet as at	31-Dec-08				Y.Com
Fixed Assets					
Premises Fixtures Motor Vehicles		1200000 48000 93000 1341000	15000 42000		1185000 48000 <u>135000</u> 1368000
Current Assets					
Stock Cash Bank Debtors	45000 63000 6000 54000	168000		45000 63000 6000 54000	168000
Current Liabilities					
Creditors	75000	75000		75000	75000
Net Current Assets		93000			93000
Net Assets		1434000			1461000
Financed By					
Capital Profit & Loss Less Drawings		1308000 150000 -24000	5000		1308000 182000 -29000
		1434000	62000 62000		1461000



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Question 3 – Solution (*Cont'd*)

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

Part D

Period profit rises by
1 €32,000
Net assets increased by €27,000 - (€42,000
2 - €15,000)
This is balanced by increased profit (Credit) of €32,000 &
3 increased
drawings (Debit) of
€5,000

62000

62000

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

	Stille	KENIBOUINI 144	
W1	1200*12%	144	12
W2	Reduced int charge (per note 4 in Q)	279 -129 150	
W3	Dishonoured Cheque Discount on settling	1200 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 &bit (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 ageed with debtor
	1430	See W 3
	1650	Invoice not posted to individual debtor's account per Note 6 in Q
Adjusted Balance	79061	

Question 5 - Solution

						Totals
Question 5 - Solution						
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
2000	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



Question 5 – Solution (Cont'd)

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

Bank				
Veh.1	32000			
Veh.3	25000			

Ρ	&	L	Α	ccount

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

Question 5 - Solution (Cont'd)

01/01/2009

Balance b/d

288,000

Question 5 - Solution (Cont'd) VEHICLE ACCOUNT 01/01/2006 Veh 1 80,000 31/12/2006 Balance c/d 155,000					
		VEHICLE ACCO	TNUC		20
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 Modifications	155,000	31/12/2007	Balance c/d	266,000
01/01/2007	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

2

Question 5 – Solution (Cont'd)

31/12/2006 Balance c/d 22,000 31/12/2006 Annual Charge 2	22,000
22,0002	22,000
31/12/2007 Balance c/d 57,600 01/01/2007 Balance b/d 2	22,000
31/12/2007 Annual Charge <u>3</u>	35,600
57,600 5	57,600
01/07/2008 Disp. Veh 1 47,500 01/01/2008 Balance b/d 5	57,600
01/09/2008 Disp. Veh 3 14,400 31/12/2008 Annual Charge 5	51,600
31/12/2008 Balance c/d <u>47,300</u>	
109,200	109,200
01/01/2009 4	47,300

StudentBounty.com **Provision(Accumulated) Depreciation Account**

Question 6 - Solution

1. Objectives of Financial Statements

SugentBounty.com 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.

Question 6 – Solution (Cont'd)

Management Accounting

StudentBounty.com 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 $\notin \pounds$ 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 \notin 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.

StudentBounts.com 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

Autumn 2009

StudentBounts.com 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.

Ouestion 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 \in 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.

Question 3

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

SugentBounty.com 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 \pounds 1,800 (it should have been \pounds 600 + \pounds 600 + 300 = €1,500), this might have been a totting errorbut because there was no indication of how €1,800was arrived at, no marks were awarded.(again highlighting the need to show workings clearly)

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

Question 5

StudentBounty.com 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.

- R ead
- T he
- F lipping
- Q uesto

Question 6

The best answered of the questions of choice.

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