Accounting Technicians Ireland

Financial Accounting

1st Year Examination

August 2012

Paper, Solutions & Examiner's Report

NOTES TO USERS ABOUT THESE SOLUTIONS

The solutions in this document are published by Accounting Technicians Ireland. They are intended to provide guidance to students and their teachers regarding possible answers to questions in our examinations.

Although they are published by us, we do not necessarily endorse these solutions or agree with the views expressed by their authors.

There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by us. Alternative answers will be marked on their own merits.

This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

Accounting Technicians Ireland

First Year Examination: Autumn 2012

Paper : FINANCIAL ACCOUNTING

Tuesday 21st August 2012 - 9.30 a.m. to 12.30 p.m.

INSTRUCTIONS TO CANDIDATES

PLEASE READ CAREFULLY

Candidates must indicate clearly whether they are answering the paper in accordance with the law and practice of Northern Ireland or the Republic of Ireland.

In this examination paper the €/£ symbol may be understood and used by candidates in Northern Ireland to indicate the UK pound sterling and the €/£ symbol by candidates in the Republic of Ireland to indicate the Euro.

Answer ALL THREE questions in Section A and TWO of the three questions in Section B. If more than TWO questions is answered in Section B, then only the first two questions, in the order filed, will be corrected.

Candidates should allocate their time carefully.

All workings should be shown.

All figures should be labeled 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.

Note:
This paper uses both the language of International Accounting Standards (I.A.S's) and Financial Reporting Standards (F.R.S's) where appropriate (e.g. Receivables/Debtors). Examinees are permitted to use either terminology when preparing financial statements but the use of the language of the International Accounting Standards (e.g. Receivables rather than Debtors) is preferred.

SECTION A

Answer ALL THREE QUESTIONS (Compulsory) in this Section

QUESTION 1 *(Compulsory)*

Part A

i. Outline your understanding of the function and importance of a non-current asset register.

2 Marks

ii. List four details, relating to non-current assets, which are typically seen in the non-current asset register.

2 Marks

Part B

The following information is available for S. Smith for the year ended 31 March 2012:

During the year a new building premises was constructed. Costs in relation to the construction are as follows:

	€/£
Material costs	87,900
Architect and legal fees	20,950
Cost of new plants & flowers for the building	540
Repairs	1,200
Loan interest incurred directly in relation to the construction of the asset	6,750

The construction of the building was completed during December 2011. It is estimated that the building will have a useful economic life of 50 years and a residual value of €/£25,000 at that point. Depreciation is charged on a proportional basis from 1 January 2012.

Calculate the following:

i. The value of buildings to be recorded as an addition in the books and records of S. Smith for the year ended 31 March 2012.

5 Marks

ii. The depreciation charge for buildings for the year ended 31 March 2012.

2 Marks

Part C

The following information is available for P. Prost for the year ended 31 December 2011:

	€/£
Motor vehicles at cost on 1 January 2011	32,900
Accumulated depreciation on motor vehicles at 1 January 2011	7,870

On 1 October 2011 a motor vehicle which had originally cost €/£11,000 and with accumulated depreciation of €/£7,230 as at 1 January 2011 was crashed. €/£3,120 was received from the insurance company and €/£700 was received from the sale of the motor vehicle as scrap.

P. Prost charges depreciation at 10% straight line basis on a proportional basis from the time of purchase to the time of disposal.

You are required to:

i. Prepare the motor vehicles at cost T account for the year ended 31 December 2011.

2 Marks

ii. Prepare the motor vehicles accumulated depreciation T account for the year ended 31 December 2011.

4 Marks

iii. Prepare the motor vehicles disposal account.

3 Marks

Total 20 Marks

QUESTION 2 *(Compulsory)*

The assets and liabilities of Arlen Golf Club as at 1 January 2011 and the 31 December 2011 include the following:

	1 January 2011	**31 December 2011**
	€/£	**€/£**
Club house and land	213,400	213,400
Fixtures and fittings – cost	22,110	22,110
Fixtures and fittings – accumulated depreciation	5,430	?
Bar inventory	7,610	6,970
Bar payables	3,170	4,540
Insurance prepaid	1,200	900
Annual subscriptions in arrears	8,960	9,150
Annual Subscriptions in advance	6,540	7,320
Bar wages due	410	375
Life subscriptions fund	46,800	?

The bank T account is as follows:

Bank Account

	€/£		**€/£**
		Balance b/d (1/1/2011)	17,080
Members subscriptions (all annual)	231,970	General repairs	310
Bar receipts	91,310	Payments to bar payables	41,780
Fund raiser ticket sales	24,740	Payments for bar wages	49,750
Green fees from non-members	16,930	Club rates and water charges	4,730
		Light and heat	865
		General expenses	9,870
		Club insurance	7,650
		Catering for fund raiser	510
		Advertising for fund raiser	90
		Bank charges and interest	94
		Balance c/d	232,221
	364,950		364,950
Balance b/d (1/1/12)	232,221		

Additional Information

- The life subscription fund relates to a once off deal that was offered to members in a prior year. The value of the life membership fund was originally €/£78,000 and is being credited to the income statement over 10 years.
- 10% of general expenses relate to the fund raiser.
- Fixtures and fittings are being depreciated at 5% p.a. on the reducing balance method. Club house and land are not depreciated.

You are required to:

i. Calculate the accumulated fund as at 1 January 2011.

3 Marks

ii. Prepare the Bar Trading account for the year ended 31 December 2011.

5 Marks

iii. Calculate the profit/loss of the fund raiser.

2 Marks

iv. Prepare the Income and Expenditure Account for the year ended 31 December 2011

10 Marks

Total 20 Marks

QUESTION 3 ***(Compulsory)***

Part A

List four users of accounting information. Outline what information each user is interested in and why.

(Guidance: one of the four users must be internal to the business)

6 Marks

Part B

Provide an appropriate definition of financial accounting and management accounting.

4 Marks

Outline four differences between management accounting and financial accounting.

6 Marks

Part C

Outline your understanding of the external annual audit and why conducting one is considered important for many limited companies.

4 Marks

Total 20 Marks

SECTION B

Answer any TWO of the three questions in this Section

QUESTION 4

Part A

S. Scullion does not maintain proper books and records. He is however able to provide you with the following information on his assets and liabilities as follows:

	1 January 2011	31 December 2011
	€/£	€/£
Non-current assets	45,890	51,110
Inventory	7,435	6,540
Receivables	3,200	2,870
Bank	1,450	1,190
VAT due	2,234	2,375
Payables	4,350	5,640
Accruals	310	390

S. Scullion also recalls introducing €/£21,500 of capital and having €/£2,170 of inventory and cash in drawings during the year.

You are required to calculate S. Scullion's profit or loss for the year ended 31 December 2011.

7 Marks

Part B

The following information relates to the payroll costs for C. Cox, a sole trader for the month of November 2011.

- Gross wages and salaries €/£45,900;
- Employers PRSI/NIC €/£6,100;
- Net wages and salaries €/£32,050;
- Balances owed to the Revenue Authority were paid on 30 November 2011.

Note: The difference between gross and net wages and salaries relates only to salary taxes and employees PRSI/ NIC.

You are required to:

Prepare appropriate journal entries to record the:

i) Wages expense in the books and records of C. Cox. **3 Marks**
ii) Payment of wages through the bank. **2 Marks**
iii) Payment of PAYE and PRSI/NIC to the Revenue authority. **2 Marks**

QUESTION 4 *(Cont'd)*

Part C
The following books of prime entry are available for a sole trader for the month of December 2011.

Purchases Day Book

Date	**Analysis**	**Total**	**Net**	**VAT**
		€/£	€/£	€/£
02-Dec	Goods for resale	6,900	6,000	900
05-Dec	Goods for resale	5,267	4,580	687
		12,167	10,580	1,587

Purchase Returns Day Book

Date	**Analysis**	**Total**	**Net**	**VAT**
		€/£	€/£	€/£
11-Dec	Goods for resale	920	800	120
		920	800	120

Sales Day Book

Date	**Analysis**	**Total**	**Net**	**VAT**
		€/£	€/£	€/£
4-Dec	Sale of goods	25,185	21,900	3,285
		25,185	21,900	3,285

Sales Returns Day Book

Date	**Analysis**	**Total**	**Net**	**VAT**
		€/£	€/£	€/£
17-Dec	Sale of goods	1,380	1,200	180
		1,380	1,200	180

Cheque Payments Book

Date	**Analysis**	**Total**	**VAT**	**Payables**
		€/£	€/£	€/£
21-Dec	Payables	7,800		7,800
27-Dec	VAT	1,070	1,070	
		8,870	1,070	7,800

Cash Receipts Book

Date	**Analysis**	**Total**	**Receivables**
		€/£	€/£
8-Dec	Receivables	11,730	11,730
		11,730	11,730

You are required to:
Post the books of prime entry above to the relevant T accounts and balance these T account.

6 Marks
Total 20 Marks

QUESTION 5

The following trial balance was extracted from the books of C. Cheevers, a sole trader, on 31 December 2011:

	€/£	**€/£**
Land	220,000	
Fixtures and fittings	92,150	
Accumulated depreciation on fixtures and fittings		27,645
Inventory as at 1/1/2011	24,810	
Receivables and payables	102,350	72,300
VAT (refund due from Revenue Authority)	4,490	
Deposit on rented premises, held by landlord	10,800	
Bank and cash	12,150	
PRSI/NIC liability		7,290
Business rent	32,400	
Sales		604,050
Purchases	315,410	
Returns	9,270	10,090
Discounts	3,360	4,720
Distribution and advertising	2,850	
Light and heat	3,140	
Telephone and internet	5,920	
Business insurance	23,120	
Rates, water charges and refuse	4,520	
Wages and salaries	92,250	
5% long term bank loan		62,500
Long term loan interest	2,000	
Irrecoverable debts	2,640	
Drawings	9,090	
Accumulated profits/losses		16,140
Capital		167,985
	972,720	**972,720**

The following information, which has *not* been accounted for above, is also available:

1. The inventory count as at 31 December 2011 showed closing inventory valued at £/€29,710. Three damaged inventory items are included in this figure at their original cost price of £/€5,500. It will cost £/€660 to repair these items and they will need to be repackaged at an additional cost of £/€50, after which they can be sold for £/€5,570.

2. During 2011 C. Cheevers took goods to the value of £/€150 per month for his personal use.

3. On 31 October 2011 C. Cheevers paid business insurance of £/€6,000 for the year ended 31 October 2012. Only the transaction made on the 31 October 2011 has been accounted for in the above trial balance.

4. C. Cheevers reviewed the receivables listing as at 31 December 2011 and determined that a further £/€1,970 of irrecoverable debts needs to be written-off at the year end and that the final allowance for receivables should be set at 5% of the final receivables balance.

QUESTION 5 *(Cont'd)*

5. On 31 December 2011, C. Cheevers found an invoice for light and heat for £/€940 that has not be included in the books and records.

6. Allowance to be made for depreciation as follows:

Land	Not depreciated.
Fixtures and fittings	15% reducing balance method.

(Depreciation should be calculated to the nearest whole number)

You are required to prepare:

a) The income statement for the year ended 31 December 2011.

11 Marks

b) The statement of financial position as at that date.

9 Marks
Total 20 Marks

QUESTION 6

F. Fox, a sole trader, has the following balances in his payable's ledger as at 1 December 2011:

Payable Name	Nature of Balance	€/£
N. Nedman	Credit balance	35,009
S. Scully	Credit balance	14,140
M. Mayar	Debit balance	1,205
A. Altman	Credit balance	24,772

The following transactions took place in the month of December 2011:

1. On 1 December 2011 goods valued at €/£11,150 net of VAT were purchased from N. Nedman;
2. On 6 December 2011 goods valued at €/£9,410 net of VAT were purchased from A. Altman;
3. On 15 December 2011 goods valued at €/£4,800 net of VAT were purchased from S. Scully;
4. On 16 December a notice was received from N. Nedman stating that interest of €/£110 was being charged on a balance that had been owed for in excess of 150 days;
5. On 19 December 2011 goods valued at €/£770 net of VAT were returned to N. Nedman;
6. On 26 December 2011 M. Mayar paid €/£1,000 of the balance owed;
7. On 27 December 2011 goods valued at €/£3,600 net of VAT were returned to S. Scully;
8. On 30 December 2011 the following balances were paid to payables:
   a. N. Nedman: €15,150;
   b. S. Scully: €7,900, receiving a discount of €/£210;
   c. A. Altman: €11,700, receiving a discount of €/£405.

The VAT rate applicable to all of the above transactions is 10%

You are required to:

a) Prepare the following books of original entry to record the above transactions:
   i. The purchases day book;
   ii. The purchases returns day book;
   iii. The cheque payments book;
   iv. The cash receipts book;
   v. The journal required to post the interest charged by the supplier.

7 Marks

b) From the books of original entry prepared in part i above and any other relevant information, prepare the payable's control account for the month ended 31 December 2011.

4 Marks

c) Prepare the individual T accounts for each payable for the month of December 2011 and extract a payable's listing as at 31 December 2011.

7 Marks

d) Reconcile the payable's listing as per part iii to the payable's control account prepared in part ii above.

2 Marks
Total 20 Marks

Autumn 2012

Financial Accounting

Suggested Solutions

Students please note: These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

Solution One

Part A

(i)

The non-current asset register records all the non-current assets held by the business. The non current asset register is an important internal control for management to track the non-current assets of a business. It carries detailed information relating to the non-current assets of the business. When an asset is purchased it is recorded in the appropriate nominal ledger accounts by means of double entry. The non current asset register does not form part of this double entry system, it is a memorandum ledger. The purpose of a non-current asset register is to help maintain control over non-current assets, what assets the business has and where they are located in the business.

[2 marks]

(ii)

Details included in the non current asset register include:

- The cost of the asset.
- The date of acquisition of the asset.
- A description of the asset.
- The location of the asset.
- What depreciation method that is being used.
- The depreciation charge.
- The expected useful life of the asset.
- The net book value.
- Any disposals of assets.

[½ mark each for any four]

Part B

(i)

	€/£	
Material costs	87,900	1 mark
Architect and legal fees	20,950	1 mark
Loan interest incurred directly in relation to the construction of the asset	6,750	1 mark
	115,600	

1 mark each for excluding plants and flower and repair costs

[5 marks total]

(ii)

€/£115,600 - €/£25,000 / 50 = €/£1,812 / 12 * 3 = €/£453

[2 marks]

Part C

Motor Vehicles at Cost Account

	Date	Details	€/£	Date	Details	€/£	
½ mark	1/1/11	Balance c/d	32,900	1/10/11	Disposal	11,000	1 mark
				31/12/11	Balance	21,900	
			32,900			32,900	
	1/1/12	Balance	21,900				

½ mark for balancing the account

Motor Vehicles Accumulated Depreciation Account

	Date	Details	€/£	Date	Details	€/£	
1½ marks	1/1/2011	Disposal	8,055	1/1/11	Balance c/d	7,870	1 mark
	31/12/11	Balance b/d	2,830	31/12/11	Income statement	3,015	1½ marks
			10,885			10,885	
				1/1/2011	Balance c/d	2,830	

Motor Vehicles Disposal Account

	Date	Details	€/£	Date	Details	€/£	
½ mark	1/10/11	Cost	11,000	1/10/11	Accumulated Depreciation	8,055	½ mark
½ mark		IS	875	1/10/11	Insurance	3,120	0.75 mark
				1/10/11	Scrap	700	0.75 mark
			11,875			11,875	

Motor Vehicle Disposed of Accumulated Depreciation:

1 January 2011		€/£7,230
To 1 October 2011	€/£11,000*10% = €/£1,100/12*9	€/£825

Motor Vehicle Depreciation Calculation 2011:

	€				€/£
Continuing	21,900	*	10%	=	2,190
Disposed of MV					825
					3,015

Solution Two

Part i

	1/1/2011 €/£	1/1/2011 €/£	
Assets			
Clubhouse	213,400		
Fixtures and fittings	22,110		
Fixtures and fittings (accumulated depreciation)	(5,430)		
Inventory	7,610		
Subscriptions due	8,960		½ mark
Insurance prepaid	1,200		½ mark
		247,850	
Liabilities			
Payables	3,170		
Subscriptions in advance	6,540		½ mark
Bank overdraft	17,080		½ mark
Bar wages due	410		½ mark
Life subscriptions fund	46,800		½ mark
		(74,000)	
Opening Accumulated Fund		173,850	

Part ii

Bar Trading Account for Arlen Golf Club for the year ended 31 December 2011. ½ mark

	€/£	€/£	
Sales		91,310	½ mark
Cost of sales			
Opening inventory	7,610		½ mark
Purchases	43,150		1½ mark
	50,760		
Less closing inventory	(6,970)		½ mark
Cost of sales		(43,790)	
Gross Profit		47,520	
Less expenses			
Bar wages		(49,715)	1½ mark
Bar Loss		(2,195)	

Working 1

Bar Payables A/C

	€/£		€/£
Bank	41,780	Balance b/d	3,170
		Bar Trading Account Purchases	43,150
Balance c/d	4,540		
	46,320		46,320
		Balance b/d	4,540

Working 2

Wages A/C

	€/£		€/£
Bank	49,750	Balance b/d	410
		Bar Trading Account	49,715
Balance c/d	375		
	50,125		50,125
		Balance b/d	375

Part iii

Profit/loss on fund raiser

		€/£
Receipts	½ mark	24,740
Costs		
Catering for fundraiser	½ mark	(510)
Advertising	½ mark	(90)
General expenses	½ mark	(987)
Profit on fundraiser		23,153

Part iv

Arlen Golf Club

Income and expenditure account for the year to 31 December 2011 ½ mark

	€/£	€/£	
Income			
Subscriptions		231,380	2½ mark
Release of one year life subscriptions		7,800	½ mark
Bar loss		(2,195)	½ mark
Profit on fundraiser		23,153	½ mark
Green fees		16,930	½ mark
		277,068	
Expenditure			
Light and heat	865		½ mark
Bank charges and interest	94		½ mark
General club expenses	8,883		½ mark
Depreciation	834		1 mark
Insurance	7,950		1½ mark
Rates and water charges	4,730		½ mark
Repairs	310		½ mark
		(23,666)	
Excess of income over expenses		253,402	

Working 1

Subscriptions Account

Details	€/£	Details	€/£
Opening subs in arrears	8,960	Opening subs in advance	6,540
I/S value for subs	**231,380**	Cash received for subs	231,970
Closing subs in advance	7,320	Closing subs in arrears	9,150
	247,660		247,660
Opening subs in arrears	9,150	Opening subs in advance	7,320

Working 2

Fixtures and Fittings 1/1/10	€/£22,110
Accumulated depreciation	(€/£5,430)
	16,680
Depreciation 5%	5%
	834

Insurance A/C

	€/£		€/£
Balance b/d	1,200	Income statement	7,950
Bank	7,650	Balance c/d	900
	8,850		8,850
Balance b/d	900		

(Note: Closing Accumulated Fund was not asked in the question – it is presented here as a student a

Arlen Golf Club
Accumulated Fund as at 31 December 2011

	€/£	€/£	€/£
Non-current assets			
Buildings and club house			213,400
Fixtures and fittings			15,846
			229,246
Current assets			
Closing inventories		6,970	
Subs in arrears		9,150	
Prepayments		900	
Bank		232,221	
			249,241
Total assets			**478,487**
Equity and Liabilities			
Accumulated fund			
Accumulated fund 1/1/11		173,850	
Excess of income over expenditure		253,402	
			427,252
Non-Current Liabilities			
Life subscriptions fund			39,000
Current liabilities			
Payables		4,540	
Subs in advance		7,320	
Accruals		375	
			12,235
Total Equity and liabilities			**478,487**

Solution Three
Part A
<u>Lenders</u>
Banks who lend money to a business require information that helps them determine whether loans and interest will be paid when due. The key accounting information for lenders is therefore, cash flow and profitability of the business.

<u>Payables</u>
Suppliers and trade payables require information that helps them understand and assess the short-term liquidity of a business. Is the business able to pay short-term debt when it falls due? The key accounting information for payables is therefore cash flow and profitability.

<u>Receivables</u>
Customers require information about the ability of the business to survive and prosper. As customers of the company's products, they have a long-term interest in the company's range of products and services. They may even be dependent on the business for certain products and services. The key accounting information for receivables is therefore sales growth, new product development and investment decision.

<u>Employees</u>
Employees require information about the stability and continuing profitability of the business. They are crucially interested in information about employment prospects and the maintenance of pension funding and retirement benefits. They are also likely to be interested in the pay and benefits obtained by senior management. The key accounting information for employees is therefore revenue and profit growth, levels of investment in the business and overall employment data (numbers employed, wages and salary costs).

<u>Government</u>
Many government agencies and departments are interested in accounting information. For many businesses the most significant one is the Revenue Commissioners. Revenue needs information on business profitability in order to levy and collect corporation tax, accounting information on sales and purchases is needed to verify Value Added Tax (VAT) returns.

<u>Analysts</u>
Investment analysts require very detailed financial and other information in order to analyse the competitive performance of a business and its sector (only applicable for Plcs). Much of this is provided by the detailed accounting disclosures that are required by authorities such as the London Stock Exchange or the Irish Stock Exchange.

<u>Public at large</u>
Interest groups formed by various groups of individuals who have a specific interest in the activities and performance of businesses, will also require accounting information such as the environmental policies of the business.

[1.5 marks per user, ½ mark for name and 1 mark for information interested in]

Part B
<u>Financial Accounting</u>
This is the process of summarising financial information in order to prepare the company's financial statements. The financial statements of an organisation are the Income Statement and the Statement of Financial Position These statements are primarily of interest to external users of accounting information. Financial statements are historical in nature in that they are prepared on a semi-annual/annual basis and are concerned primarily with the financial performance and the financial position of the company

[2 marks]

<u>Management Accounting</u>
This is the process of providing detailed information to management on current and planned events. This information assists managers in their roles of planning, controlling and making decisions. Usually management accounts are only available to internal users of accounting information. Management accounting will contain information such as department budgets, product profitability, information on production costs etc.

[2 marks]

Solution Three *(Cont'd)*

The differences between management and financial accounting can be assessed under the following headi...

Legal Requirements
Limited companies are required by law to prepare on an annual basis the financial statements (end product of the financial accounting function within the business) for the company. While most companies will have a management accounting function within the business there is no legal requirement to do so

Users
The users of financial information are external to the business whereas the users of management accounts are internal to the business. Indeed within an organisation management accounting information for example how profitable an individual product line is may only be available to senior management.

Audit Process
In some cases the financial statements of the company must be audited by an independent audit company before the information is released to shareholders. The function of the audit process is to give those who rely on the financial statements of the company assurance that the information contained therein represents a true and fair view of the company. The management accounts of a company do not have to be audited and indeed in many cases will contain information which may only be approximate (think for example of a budget which will contain estimates of future levels of income and expenditure). They are prepared internally and used internally within the company – thus there is no need for an audit as their does not exist the same conflict of interest which exists when financial accounts are being prepared.

Professional Regulations
The financial statements of a company must comply with all relevant professional standards (IFRS – internationally and SSAPs & FRSs - Ireland and the UK). Management accounts do no have any such regulation to be complied with. Formats of the accounts is at the managements discretion as is the manner in which the figures are calculated and the assumptions which are made.

Timeliness
The main drawback of financial accounting is that the information contained in the financial statements is out of date by the time the financial statements are published to shareholders in the annual report. The emphasis in financial accounting is upon accuracy as opposed to timeliness. For example the financial statements for year ended 31 December 2008 may not be published to the public until March 2009, thus the information is largely out of date. In management accounting, while accuracy is important, receiving the information in a timely manner is essential if the information is to be of any use to managers in the decision making process. There is no point in receiving information about a decision after the decision has been made.

Time Line
Financial accounting deals with information that is historic, all the figures shown have already happened in the past. Management accounting can deal with figures in the past, present and future. In addition financial information is prepared quarterly, semi annually or annually whereas management accounting is prepared whenever it is required by managers.

Scope
Financial statements deal with the organisation as a whole, in that the financial statements are reporting on the financial performance, position and cash flow of the whole company. Management accounts tend to examine segments of the business and individual products, for example a departmental budget or the costing of a particular product line.

Detail
The information contained in financial accounting tends to aggregate numbers and therefore some detail has been lost. This aggregation is essential as without it the financial statements would become very cluttered and difficult to understand. The notes to the financial statements attempt to add detail to the aggregated information in the financial statements. Managers involved in the day-to-day running of the organisation require much more detailed information than that contained in the financial accounts of the organisation. Thus management accounts tend to be more detailed.

[Any four of the above, ½ mark for difference and 1 mark for explanation]

Solution Three *(Cont'd)*

Part C

External Audit

In many jurisdictions companies are required to produce annual financial statements and have them audited by an external auditor. The need for auditing is derived from the need for trust/confidence in the information in the annual financial statements. This is because in many large companies the owners of the company are not the same as the directors of the company.

Directors are appointed by the shareholders to act on their behalf and have a fiduciary duty (must act in good faith). Directors are responsible for the stewardship of assets but also are required to prepare regular reports on the effectiveness of that stewardship. Hence a conflict of interest arises.

An annual external audit is where an independent firm of accounts examines the books, records and financial statements produced by the directors to assess whether they represent a true and fair view of the financial health of the business.

[4 marks]

Solution Four
Part A

Opening Capital

	1/1/2011 €/£	1/1/2011 €/£
Assets		
Non-current assets	45,890	
Inventory	7,435	
Receivables	3,200	
Bank	1,450	
		57,975
Liabilities		
Payables	4,350	
VAT (Sales tax) due	2,234	
Accruals	310	
		(6,894)
Opening capital		**51,081**

Closing capital

	31/12/2011 €/£	31/12/2011 €/£
Assets		
Non-current assets	51,110	
Inventory	6,540	
Receivables	2,870	
Bank	1,190	
		61,710
Liabilities		
Payables	5,640	
VAT (Sales tax) due	2,375	
Accruals	390	
		(8,405)
Closing capital		**53,305**

Net profit calculation

	€/£	
Opening capital	51,081	2.5 Marks
Capital introduced	21,500	1 Mark
Drawings	(2,170)	1 Mark
Net loss	(17,106)	
Closing capital	53,305	2.5 Marks

Opening and closing capital marks broken down as follows:
1.75 marks for opening and closing capital broken down – 0.25 per correct entry
0.75 for using figures correctly in the calculation

Solution Four *(Cont'd)*

Part B

		Debit €/£	Credit €/£	
1.				
Dr	Wages and salaries – income statement	45,900		0.5 mark
Dr	Employers PRSI	6,100		1 mark
Cr	Paye/prsi		19,950	1 mark
Cr	Net wages		32,050	0.5 mark
	Being the posting of wages and salaries			
2.				
Dr	Net wages	32,050		1 mark
Cr	Bank		32,050	1 mark
	Being the payment of wages and salaries			
3.				
Dr	Paye/prsi	19,950		1 mark
Cr	Bank		19,950	1 mark
	Being the payment of paye/prsi to the revenue authority			

No marks given for narratives as they were not specifically requested in the question

Part C

Payables A/C

		€/£		€/£	
Purchases returns	¼ mark	920	Purchases book	12,167	¼ mark
Cheque payments	¼ mark	7,800			
Balance c/d		3,447			
		12,167		12,167	¼ mark balancing
			Balance b/d	3,447	

Receivables A/C

		€/£		€/£	
¼ mark	Sales book	25,185	Sales returns book	1,380	¼ mark
			Cash receipts book	11,730	½ mark
			Balance c/d	12,075	
		25,185		25,185	¼ mark balancing
	Balance b/d	12,075			

VAT

		€/£		€/£	
¼ mark	Purchases book	1,587	Purchases returns	120	¼ mark
¼ mark	Sales returns	180	Sales book	3,285	¼ mark
¼ mark	Cheque payments	1,070			
	Balance c/d	568			
		3,405		3,405	¼ mark balancing
			Balance b/d	568	

Solution Four *(Cont'd)*

Bank

		€/£		€/£	
½ mark	Cash receipts book	11,730	Cheque payments	8,870	½ mark
			Balance b/d	2,860	
		11,730		11,730	¼ mark balancing
	Balance c/d	2,860			

Sales Returns Account

		€/£		€/£
¼ mark	Receivables	1,200		

Purchases Returns Account

	€/£		€/£	
		Payables	800	¼ mark

Sales Account

	€/£		€/£	
		Sales book	21,900	¼ mark

Purchases Account

		€/£		€/£
¼ mark	Purchases book	10,580		

Solution Five

C. Cheevers
Income statement for the year ended 31 December 2011 ½ mark

		€/£	€/£	
Sales			604,050	
Sales returns			(9,270)	½ mar
Net sales			594,780	
Cost of sales				
Opening inventory		24,810		
Purchases	313,610			1 mark
Purchases returns	(10,090)	303,520		½ mark
		328,330		
Less closing inventory		(29,070)		2 marks
Cost of sales			(299,260)	
Gross Profit			295,520	
Discount received			4,720	1 mark
Less Expenses				
Interest		3,125		½ mark
Business insurance		18,120		½ mark
Increase in allowance for receivables		5,019		1 mark
Wages and salaries		92,250		
Business rent		32,400		
Telephone and internet		5,920		
Depreciation of fixtures and fittings		9,676		1 mark
Advertising and distribution		2,850		
Irrecoverable debts		4,610		½ mark
Discounts allowed		3,360		1 mark
Water, rates and refuse		4,520		1 mark
Light and heat		4,080		
Total expenses			(185,930)	
Operating Profit			114,310	

Solution Five *(Cont'd)*

C. Cheevers
Statement of financial position as at 31 December 2011½ mark

	2011 €/£	2011 €/£	2011 €/£	
Non-current assets				
Land	220,000		220,000	
Fixtures and fittings	92,150	(37,321)	54,829	½ mark
			274,829	
Current assets				
Closing inventory		29,070		
Receivables	100,380			
Allowances for receivables	(5,019)	95,361		1 mark
Deposit		10,800		½ mark
VAT Refund due		4,490		½ mark
Cash and bank		12,150		
Prepayments		5,000		1 mark
			156,871	
Total assets			**431,700**	
Equity and Liabilities				
Equity				
Capital		167,985		½ mark
Accumulated profits		130,450		½ mark
		298,435		
Drawings		(10,890)		1 mark
			287,545	
Non Current Liabilities				
Loan			62,500	½ mark
Current liabilities				
Payables		72,300		½ mark
PRSI		7,290		½ mark
Accrual Interest		1,125		1 mark
Accrual L&H		940		½ mark
			81,655	
Total Equity and Liabilities			**431,700**	

Workings
Working 1

Closing inventory	29,710
Excess of cost over NRV	(640)
Restated closing inventory	29,070

Damaged inventory

	Cost €/£	NRV €/£
Cost	5,500	
Sales price		5,570
Repairs		(660)
Repackaging		(50)
		4,860

Excess of cost over NRV = €/£640

Solution Five *(Cont'd)*

Workings 2

	€/£
Purchases	315,410
Drawings	(1,800)
Restated purchases	313,610

	€/£
Drawings as per TB	9,090
Inventory	1,800
Restated drawings	10,890

Workings 3

Insurance – 10 months prepaid

€/£6,000 / 12 * 10 = €/£5,000

	€/£
Insurance as per TB	23,120
Prepayment	(5,000)
Restated insurance	18,120

Workings 4

	€/£
Receivables	102,350
Irrecoverable debts	(1,970)
	100,380
Closing general allowance	5%
	5,019

No opening allowance therefore the increase to be charged to the Income Statement is €/£5,019

	€/£
Irrecoverable debts as per TB	2,640
Additional	1,970
Restated irrecoverable debts	4,610

Workings 5

	€/£
Light and heat as per TB	3,140
Invoice	940
Restated light and heat	4,080

Workings 6

Fixtures and fitting

	€/£
Fixtures and fittingr	92,150
Accumulated depreciation	(27,645)
	64,505
Annual depreciation – 15% RB	15%

9,676

Solution Five *(Cont'd)*

Workings 7

	€/£
Loan	62,500
5% interest	5%
	3,125
Paid as per TB	(2,000)
Accrual	1,125

Solution Six

Part A

Purchases Book

Date	Analysis	Total	Net	VAT
		€	€	€
01-Dec	Goods N. Neon	12,265	11,150	1,115
06-Dec	Goods A. Aluminum	10,351	9,410	941
15-Dec	Goods S. Sodium	5,280	4,800	480
		27,896	25,360	2,536

1½ marks

Purchase Returns Book

Date	Analysis	Total	Net	VAT
		€	€	€
19-Dec	Goods N. Neon	847	770	77
27-Dec	Goods S. Sodium	3,960	3,600	360
		4,807	4,370	437

1½ marks

Cheque Payments Book

Date	Analysis	Total	Payables	Memorandum Only Discount Received
		€/£	€/£	€/£
30-Dec	N. Neon	15,150	15,150	-
30-Dec	S. Sodium	7,900	7,900	210
30-Dec	A. Aluminum	11,700	11,700	405
		34,750	34,750	615

1½ marks

Cash Receipts & Lodgements book

Date	Analysis	Total	Payables
		€	€
26-Dec	M. Magnesium	1,000	1,000
		1,000	1,000

1 mark

Journal

		Dr	Cr
		€/£	€/£
Dr	Interest	110	
Cr	N. Neon		110

Being interest charged by payable on overdue balance

1½ marks

Part B

Payables Control A/C

		€/£		€/£	
½ mark	Opening balance b/d	1,205	Opening balance b/d	73,921	½ mark
½ mark	Cheque payments book	34,750	Purchases Book	27,896	½ mark
½ mark	Purchase Returns Book	4,807	Cash receipts book	1,000	½ mark
½ mark	Discounts received	615	Interest	110	½ mark
	Balance c/d	61,755	Balance c/d	205	
		103,132		103,132	
	Balance b/d	205	Balance b/d	61,755	

Solution Six *(Cont'd)*

Part C

N. Nedman

		€/£		€/£	
¼ mark	Cheque payments book	15,150	Balance b/d	35,009	¼ mark
¼ mark	Purchase Returns Book	847	Purchases Book	12,265	¼ mark
	Balance c/d	31,387	Interest	110	½ mark
		47,384		47,384	
			Balance b/d	31,387	

S. Scully

		€/£		€/£	
¼ mark	Cheque payments book	7,900	Balance b/d	14,140	¼ mark
¼ mark	Purchase Returns Book	3,960	Purchases Book	5,280	¼ mark
¼ mark	Discount received	210			
	Balance c/d	7,350			
		19,420		19,420	
			Balance b/d	7,350	

M. Mayar

		€/£		€/£	
½ mark	Balance b/d	1,205	Cash receipts books	1,000	½ mark
			Balance c/d	205	¼ mark
		1,205		1,205	
	Balance b/d	205			

A. Altman

		€/£		€/£	
¼ mark	Cheque payments book	11,700	Balance b/d	24,772	¼ mark
¼ mark	Discount received	405	Purchases Book	10,351	¼ mark
	Balance c/d	23,018			
		35,123		35,123	
			Balance b/d	23,018	

Payable's Listing

	€	
N. Neon	31,387	½ mark
S. Sodium	7,350	½ mark
M. Magnesium	(205)	½ mark
A. Aluminum	23,018	½ mark
Total	61,550	

Part D

	€
Balance as per payable's control account credit	61,755
Balance as per payable's control account debit	(205)
Net balance as per payable's control account	61,550
Balance as per payable's listing	61,550
Difference	-

The balance as per the payable's control account and the payable's listing should always be the same.

[2 marks]

1st Year Examination: August 2012

Financial Accounting

Examiner's Report

General Comments:

Statistical Analysis – By Question						
Question No.	1	2	3	4	5	6
Average Mark (%)	48%	41%	47%	29%	54%	47%
Nos. Attempting	286	261	274	98	258	201

Statistical Analysis - Overall	
Pass Rate	40%
Average Mark	44%
Range of Marks	**Nos. of Students**
0-39	111
40-49	62
50-59	65
60-69	33
70 and over	17
Total No. Sitting Exam	288
Total Absent	51
Total Approved Absent	3
Total No. Applied for Exam	342

The overall standard of answers was disappointing. In particular candidates showed a poor understanding of bookkeeping, across several questions. Some candidates failed to attempt the required number of questions and struggled to achieve an overall passing mark as a result. A small number of candidates are still completing 3 questions in section B and two questions in section A in error, therefore they were only marked out of four questions.

Other candidates are only attempting four questions or are not attempting all parts of the question. This makes achieving a passing mark much more difficult.

The general presentation of scripts was acceptable. The majority of candidates are now filing question parts together. The main areas of weakness around presentation are as follows:

- Poor handwriting
- No workings presented for some questions
- Workings presented all combined in the rough work section of the paper – despite the answer book explicitly stating not to do this

Question 1
This question was reasonably well answered. The following points are noted:

Part A

- Many candidates did not read the question and provided a definition of non-current assets as opposed discussing a non-current asset register

Part B

- Some candidates included the cost of repairs and flowers in the cost of the building in error
- Some candidates calculated depreciated based on the residual value of the asset in error, while other failed to deduct it from the cost when calculating the depreciation
- Some candidates failed to pro rata the depreciation charge for 3 months
- Some candidates did not attempt to calculate the depreciation charge

Part C

- Candidates in general could post the opening balances to the cost and accumulated depreciation accounts
- Some candidates included the scrap and the insurance policy proceeds in the cost account in error – clearly getting confused with a part exchange scenario
- Calculating depreciation for an asset in the year of sale remains an issue with most candidates not preparing this calculation correctly

Question 2

This topic has been examined in several sitting and has tended to be poorly answered in each. Unfortunately this situation persisted in the current sitting.

Part i

- The majority of candidates understood how to calculate the closing accumulated fund, however most omitted the balance as per the bank in error

Part ii

- The majority of candidates understood how to prepare a bar trading account. However only a small minority correctly calculated the bar purchases and bar wages and salaries correctly. Most simply took the figure paid as per the bank account
- Some candidates included additional expenses within the bar trading account in error

Part iii

- The majority of candidates correctly calculated the profit on the fund raiser
- A small minority of candidates forgot to include the proportion of general expenses which related to the fund raiser in the calculation

Part iv

- This was poorly answered overall
- A significant portion of candidates made no attempt to calculate the subscriptions for the year, including simply the figure in the bank account in error
- A significant minority got completely confused as to what was being asked and prepared the closing accumulated fund in error

Question 3

Part A

- Most candidates were able to name four users of accounting information and explain information they were interested in and why
- However some candidates completely confused creditors/payables and debtors/receivables
    - Candidates ideally should not be using UK/Irish GAAP terminology, though no marks were deducted for it
    - The fact that candidates presenting for the examination think that a business owes debtors/receivables monies for goods the business has purchases from debtors/receivables shows a fundamental lack of understanding of basic accounting terminology

Part B

- The majority of candidates were able to provide a definition of management and financial accounting
- A significant minority however completely did not understand the difference between them
- In general candidates were not able to provide four differences between management and financial accounting.

Part C

- This part of the question was very poorly answered
- The majority of candidates do not have any understanding as to what an external audit is or why it is important
- Some candidates did not actually answer the question being posed, choosing instead to provide a narrative on how the failure of external audits has lead to the current Irish recession

Question 4

The majority of candidates did not attempt this question, those that did attempt it tended not to perform well.

Part A

- Many candidates did not attempt this part
- For those that did the majority were not able to calculate the profit for the year. Candidates did not recognise the appropriate incomplete record technique to use

Part B

- This was very poorly answered, even though nearly the exact same question had been asked in the 2011 examination diet and was poorly answered there
- A significant amount of candidates prepared T accounts and not journals as asked in the question and as a result only received attempt marks

Part C

- This was the best answered portion of the question, though answers here were still disappointing given that it was a straight forward posting from the books of prime entry to T accounts question
- Many candidates cannot account for VAT correctly
- A small number of candidates prepared accounts that were not required at all, some prepared an Income Statement in error
- Some candidates demonstrated very poor/no knowledge of bookkeeping rules

Question 5

A very popular choice of question amongst candidates, and generally candidates scored wel[...] question. The majority of candidates are now presenting workings correctly for this question typ[...] same approach needs to be applied to other questions on the paper. Adjustments 5 and 6 were genera[...] well answered.

Where marks were lost, they were lost in the following areas:

- Poor formats for the financial statements
- Incorrectly naming the statements – they are named correctly on the examination paper
- Calculation of the closing inventory remains an issue for many candidates. This has been an issue now for several sittings
- The treatment of drawings of inventory remains an issue
- The treatment of the business insurance prepayment was disappointing with many candidates struggling with this
- The treatment of irrecoverable debts and allowances for receivables remains an issue. This has been an issue now for several sittings

Question 6

Again this was a popular question.

Part i

- Answers here were disappointing, particularly as books of prime entry were presented in question 4

Part ii

- The preparation of the payables control account was generally good. However some candidates are showing the figures individually for each payable in error

Part iii

- A minority of candidates presented T accounts which were not asked for, for example the VAT T account and the Bank T account
- The treatment of VAT in the payables individual accounts was again an issue for some candidates
- Many candidates failed to extract a payables listing

Part iv

- A significant portion of candidates never attempted this portion of the question. Candidates did not appear to run out of time in this respect as for many it was not the last question attempted on the paper.