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Accounting Technicians Ireland

Financial Accounting

1st Year Examination

May 2012

Paper, Solutions & Examiner's Report

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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.

There are often many possible approaches to the solution of questions in professional examinations. The examiner will accept alternatives to the suggested solution shown herein as long as that alternative is appropriate.

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.

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Accounting Technicians Ireland

First Year Examination: Summer 2012

Paper : FINANCIAL ACCOUNTING

Tuesday 15th May 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 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.

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.

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SECTION A

Answer ALL THREE QUESTIONS (Compulsory) in this Section

QUESTION 1 (Compulsory)
The following information is available for H. Henderson for the year ended 31 October 2011:

Part A
H. Henderson has two properties that are surplus to the business's requirements and are leased out. Details of rent in advance and rent in arrears at the beginning and end of the year are as follows:

	31 October 2010	31 October 2011
	€/£	€/£
Rent received in advance, property 1	6,000	?
Rent in arrears, property 2 (all subsequently received)	7,000	?

Property 1
Rent receivable for property one is paid quarterly in advance on 1 January, 1 April, 1 July and 1 October. The annual rent receivable has remained constant for several years at €/£3,000 per month. €/£9,000 was received as expected from the tenant on 1 October 2011.

Property 2
Rent receivable for property two is paid monthly in arrears on the first day of the subsequent month. For example rent for January 2011 is due for payment on 1 February 2011. Rent receivable for property 2 was decreased during the year ended 31 October 2011 as follows:

- Rent receivable for the year ended 30 June 2011 was €/£42,000;
- Rent receivable for the year ended 30 June 2012 was reduced to €/£33,000.

H. Henderson received €/£43,250 cash for rent receivable on property 2 in the year ended 31 October 2011.

You are required to:
(i) Calculate the figure for rent receivable for inclusion in the Income Statement of H. Henderson for the year to 31 October 2011;

3 Marks

(ii) Prepare the rent receivable T account for H. Henderson for the year to 31 October 2011.

6 Marks

Part B
H. Henderson has a term loan. The following details are available in relation to the term loan for the year ended 31 October 2011:

- On 1 November 2010 H. Henderson owed the bank €/£125,000 by way of a term loan. The interest rate attached to this loan was 6% and the interest accrued on 1 November 2010 was €2,250.
- On 1 April 2011 H. Henderson borrowed an additional €/£15,000. On this date the interest rate was increased to 6.5%.
- On 1 July 2011 the interest rate was reduced to 5.5%
- On 1 September 2011 H. Henderson repays €/£5,000 of the loan. The interest rate of 5.5% remained unchanged.
- During the year ended 2011 H. Henderson paid €/£8,500 in interest on the term loan.

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Question 1 *(Cont'd)*

You are required to:

(i) Calculate, to the nearest whole number, the interest expenses for inclusion in the Income Statement of H. Henderson for the year to 31 October 2011.

4 Marks

(ii) Prepare the interest T account and the loan T Account for H. Henderson for the year to 31 October 2011.

4 Marks

Part C

With the aid of a relevant example outline your understanding of the accruals (matching) concept.

3 Marks
Total 20 Marks

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QUESTION 2 (Compulsory)

Part A
The following information is available for sole trader B. Blake for the year ended 31 December 2011:

	€/£
Opening receivables debit balances	211,250
Opening receivables credit balances	1,750
Sales (90% credit, 10% cash)	1,110,500
Credit sales returns	17,130
Cash received from customers (95% from credit customers)	895,400
Irrecoverable debts	17,700
Irrecoverable debts previously written off recovered (these funds have been included in cash receipts above)	2,310
Opening allowance for receivables	13,320
Contra entry with balances on payables ledger	5,970
Closing receivables credit balances	980

With the aid of a receivables control account, calculate the closing receivables figure for B. Blake as at 31 December 2011.

8 Marks

Part B
The following information is available for sole trader C. Chung for the year ended 31 December 2011:

	€/£
Draft receivables debit balances as at 31 December 2011	324,680
Draft irrecoverable debts written off during the year	21,090
Irrecoverable debts previously written off recovered during the year	1,110
Allowances for receivables as at 1 January 2011	14,234

As at 31 December 2011 C. Chung reviewed his receivables listing and decided the following (none of these adjustments have been reflected in the draft figures above):

- An additional €/£3,120 of debts should be written off as irrecoverable;
- C. Chung considers the €/£2,160 of debts should be made the subject of a specific allowance;
- The general allowance for receivables should be set at 4% of the remaining receivable balances.

You are required to:

i. Prepare the following T accounts for C. Chung for the year ended 31 December 2011:

a. The allowance for receivables T account;

5 Marks

b. Irrecoverable debts expense T account;

2 Marks

c. Irrecoverable debts recovered T account.

1 Mark

ii. Prepare appropriate Income Statement and Statement of Financial Position extracts to illustrate how the information above would be presented in the financial statements of C. Chung for the year ended 31 December 2011.

4 Marks
Total 20 Marks

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QUESTION 3 (Compulsory)

K. Kennedy is a sole trader with a small business. The trial balance extracted as at 30 June 2011 failed to agree. The credits exceeded the debits by €/£1,310 and the difference was entered in a suspense account.

A detailed examination of the books was undertaken and the following matters were uncovered:

1. Purchases returns of €/£7,740 has been credited to the sales returns account as £/€4,470, the corresponding entry was correctly treated;

2. A totting error was discovered in the sales returns day book. As a result of the totting error the postings to the ledger were undercast by €/£640;

3. An amount of €/£98 cash received from a customer was debited to the customer's account and credited to the cash account.

4. The cash at hand balance of €/£2,140 as at 30 June 2011 was omitted from the trial balance in error.

5. Building repairs of €/£1,720 were undertaken during the year ended 30 June 2011, these were paid for by cheque. The entry was correctly treated in the bank account and £/€720 was credited to buildings.

6. K. Kennedy rents her business premises. On 1 January 2010 rent for the year ended 31 December 2010 of €/£9,000 was paid and accounted for correctly. K. Kennedy's landlord has indicated that rent for 2011 will increase to €/£12,000 but has not invoiced for this yet, as a result of not receiving an invoice K. Kennedy has not paid any rent for 2011 and has made no accounting entry for it.

7. A credit sale of €/£5,000 (excluding VAT) was recorded by debiting sales with £/€5,000 and crediting receivables with €/£5,000. The rate of VAT tax is 15%.

(Ignore depreciation)

You are required to:

a) Prepare the journal entries, with the appropriate narratives, necessary to correct the above errors.

12 Marks

b) Prepare a suspense account to clear the difference.

4 Marks

c) Prepare a working showing the effect on proprietor's profit (if any) of correcting each of the above errors. The proprietors profit before accounting for the above entries was €/£74,780.

4 Marks

Total 20 Marks

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SECTION B

Answer any TWO of the three questions in this Section

QUESTION 4

H. Holloway, for whom you work as a trainee accounting technician, has provided you with the following bank statement and bank account details in respect of the month ended 31 January 2012.

STATEMENT OF ACCOUNT - YOUR BANK LTD
Statement date - 31 January 2012.
Account No 7654321

Date	Particulars	Debit	Credit	Balance	
				€/£	
01-Jan-12	Balance forward			27,970	Cr
03-Jan-12	Cheque 596	1,250		26,720	Cr
03-Jan-12	Lodgement		7,070	33,790	Cr
06-Jan-12	Cheque 597	60		33,730	Cr
06-Jan-12	Direct debit	1,010		32,720	Cr
12-Jan-12	Credit transfer		2,330	35,050	Cr
13-Jan-12	Cheque 600	710		34,340	Cr
14-Jan-12	Cheque 601	6,014		28,326	Cr
16-Jan-12	Lodgement		4,500	32,826	Cr
19-Jan-12	Cheque 599	9,002		23,824	Cr
23-Jan-12	Bank charges for December 2011	211		23,613	Cr
25-Jan-12	Quarterly interest received		31	23,644	Cr
27-Jan-12	Dishonoured cheque	800		22,844	Cr
27-Jan-12	Cheque 598	13,045		9,799	Cr
30-Jan-12	Cheque 603	2,524		7,275	Cr
31-Jan-12	Lodgement		7,250	14,525	Cr
31-Jan-12	Standing order: rent first quarter 2012	13,500		1,025	Cr

The books and records of H. Holloway show the followings transactions through the bank account for the month of January 2012:

Date	Receipts	€/£	Date	Payments	€/£
1/01/12	Balance	33,790	4/01/12	Cheque 597	60
			6/01/12	Cheque 598	13,000
			10/01/12	Cheque 599	9,002
			11/01/12	Cheque 600	710
12/01/12	Lodgement	2,330	12/01/12	Cheque 601	6,014
16/01/12	Lodgement	4,500	18/01/12	Cheque 602	5,949
			20/01/12	Cheque 603	2,524
28/01/12	Lodgement	7,350	30/01/12	Cheque 604	42
31/01/12	Lodgement	4,110	31/01/12	Balance	14,779
		52,080			52,080
1/2/2012	Balance	14,779			

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QUESTION 4 **(Cont'd)**

You are required to:

i. Reconcile the opening balance as per the cash book to the balance as per the bank statement.

3 Marks

ii. Prepare the adjusted cash book for the month of January 2012.

8 Marks

iii. Prepare a statement on 31 January 2012, reconciling the adjusted cash book with the bank statement balance.

5 Marks

iv. Explain, with the aid of relevant examples, in report format, two reasons for preparing bank reconciliations on a regular basis.

4 Marks

Total 20 Marks

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QUESTION 5

The following trial balance was extracted from the books of A. Arkady, a sole trader, on 31 D… 2011:

	€/£	€/£
Land and buildings	220,400	
Accumulated depreciation on land and buildings		88,160
Equipment	104,700	
Accumulated depreciation on equipment		38,900
Motor vehicles	71,740	
Accumulated depreciation on motor vehicles		51,390
Inventory as at 1/1/2011	41,010	
Receivables	98,170	
Payables		51,240
Bank and cash	25,500	
PRSI/NIC liability		9,800
Prepayments	410	
Sales and purchases	407,300	574,950
Returns outwards and returns inwards	6,770	7,010
Discounts	2,100	3,520
Carriage inwards	790	
Light and heat	8,790	
Telephone and internet	6,020	
Business insurance	17,420	
Rates and water charges	9,320	
Wages and salaries	104,575	
Long term bank loan		87,500
Long term loan interest	5,280	
Irrecoverable debts	950	
Drawings	18,090	
Accumulated profits/losses		62,100
Capital		174,765
	1,149,335	**1,149,335**

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

1. The inventory count as at 31 December 2011 showed the following information. Based on this information the value of closing inventory to be incorporated into the financial statements must be calculated.

Product	Quantity	Cost per unit	Sales Price per unit	Costs to Sell per unit
	in Units	€/£	€/£	€/£
A	1,160	4.15	5.15	0.40
B	5,480	2.70	2.65	-
C	7,320	1.85	1.90	0.10

2. On 31 December 2011 A. Arkady paid €/£1,150 for his personal house insurance out of the business bank account funds. No part of the house is used in the business.

3. On 31 December 2011 A. Arkady paid €/£5,000 in PRSI/NIC to the Revenue Authority.

4. On 31 December 2011 A. Arkady introduced €/£50,000 in new capital to aid expansion in 2012. These funds were lodged to the business bank account.

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QUESTION 5 (Cont'd)

5. On 30 June 2011 motor vehicle A was sold. Motor vehicle A had been purchased for €/£4… and had accumulated depreciation of €/£30,375 as at 1 January 2011. €/£15,500 was receive… for the sale of motor vehicle A.
(See additional information at point six for depreciation policy)

6. Allowance to be made for depreciation as follows:

Land and buildings	2% straight line
Equipment	10% reducing balance
Motor vehicles	15% straight line

The depreciation policy is to charge depreciation on a monthly basis from the month of purchase to the month of sale/disposal.

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

Part A

Outline your understanding of the need for regulation in financial accounting.

4 Marks

Part B

Outline your understanding of the term "true and fair view" as it relates to financial statements.

2 Marks

Part C

Four qualitative characteristics of financial information have been identified. You are required to prepare a note explaining each one.

8 Marks

Part D

Two accounting concepts are considered to have fundamental importance to the preparation of financial statements. These are accruals and going concern. With the aid of relevant examples outline your understanding of both.

6 Marks
Total 20 Marks

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1st Year Examination: May 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)
Property 1
Rent receivables for the income statement €/£3,000 *12 months = €/£36,000

1 mark

Property 2

Rent receivable for the year ended 30 June 2011 = €/£42,000, monthly rent €/£42,000/12 = €/£3,500
Rent receivables for the income statement €/£3,500 *8 months = €/£28,000

1 mark

Rent receivable for the year ended 30 June 2012 = €/£33,000, monthly rent €/£33,000/12 = €/£2,750
Rent receivables for the income statement €/£2,750 *4 months = €/£11,000

1 mark

Total rent for property 2 = €/£39,000

(ii)

Rent Receivable T A/C

Mark Allocation		**€/£**		**€/£**	**Mark Allocation**
½	Balance b/d	7,000	Balance b/d	6,000	**½**
½	Income Statement Prop1	36,000	Bank prop 1	36,000	**1**
½	Income Statement Prop2	39,000	Bank prop 2	43,250	**1**
1	Balance c/d	6,000	Balance c/d	2,750	**1**
		88,000		88,000	
	Balance b/d	2,750	Balance b/d	6,000	

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Solution 1 *(Cont'd)*

Part B

(i)

Loan Balance €/£	**Duration**	**Interest Rate**	**Interest Calculation**		**Interest Charge €/£**	**Mark Allocation**
125,000	5 Months	6%	125,000*6%*5/12	=	3,125	**1**
140,000	3 Months	6.5%	140,000*6.5%*3/12	=	2,275	**1**
140,000	2 Months	5.5%	140,000*5.5%*2/12	=	1,283	**1**
135,000	2 Months	5.5%	135,000*5.5%*2/12	=	1,238	**1**
Total interest charge					7,921	

(ii)

Loan A/C

Mark Allocation		**€/£**		**€/£**	**Mark Allocation**
½	1/9/11 Repayment	5,000	1/11/10 Balance b/d	125,000	½
			1/4/11 Drawdown	15,000	½
½	31/10/11 Balance c/d	135,000			
		140,000		140,000	
			Balance b/d	135,000	

Interest Account A/C

Mark Allocation		**€/£**		**€/£**	**Mark Allocation**
			1/11/10 Interest	2,250	½
½	2011 Bank	8,500	31/10/11 Income Statement	7,921	½
½	31/10/11 Balance c/d	1,671			
		10,171		10,171	
			1/11/11 Balance b/d	1,671	

Part C

Accruals

Income is recognised in the financial statements as it is earned, not when the cash is received. Expenditure is recognised as it is incurred, not when it is paid for. When income is incurred over time (e.g. rental/interest income) or expenditures are time-based (e.g. rent payments), the income and expenditure recognised in the income statement should relate to the time period, not to the receipts and payments of cash. The accruals concept gives rise to accruals and prepayment in the accounts of businesses.

An example of the accruals concept can be seen in the manner in which accruals and prepayments are dealt with in the financial statements. The Income Statement for the year will contain all expenses relating to the financial year in question. For example if a sole trader paid €9,000 in bank interest from 1st January 2011 to 30th of September 2011 and owed the bank €3,000 for the remaining 3 months of 2011, the Income Statement of that sole trader would show a charge for interest of €12,000, that is the interest for all of 2011 not just what was paid at 31st December 2011. The Statement of Financial Position would show an accrual of €3,000 representing the amount unpaid as at the year end.

3 marks

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Solution Two
Part A

Receivables Control A/C

Mark Allocation		**€/£**		**€/£**	**All**
½	Balance b/d	211,250	Balance b/d	1,750	½
1	Sales	999,450	Sales returns	17,130	½
1	Irrecoverable debts recovered	2,310	Cash received	850,630	1
			Irrecoverable debts	17,700	1
			Contra	5,970	1
1	Balance c/d	980	Balance c/d	320,810	
		1,213,990		1,213,990	
	Balance b/d	320,810	Balance b/d	980	

½ mark for omitting the opening allowance for receivables.

Part B

	£/€	**Mark Allocation**
Draft receivables debit balances as at 31 December 2011	324,680	
Additional irrecoverable debt	(3,120)	1
Restated receivables	321,560	

1 for deducting additional irrecoverable debt
½ mark for not deducting the irrecoverable debts written off during the year

General Allowance workings

	£/€	**Mark Allocation**
Restated receivables	321,560	
Specific allowances	(2,160)	
		1
	319,400	
General Allowance	4%	
Closing general allowance	12,776	
Specific allowance	2,160	1
Total closing allowance	14,936	
Opening allowance for receivables	(14,234)	
Increase in allowance for receivables	702	

(i)

Allowance for receivables T Account

Details	**€/£**	Details	**€/£**	**Mark Allocation**
		Balance b/d	14,234	1
Balance c/d	14,936	Income statement	702	4
	14,936		14,936	
		Balance c/d	14,936	

4 broken down - 3.5 as per above and ½ for correct side of T account

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Solution 2 *(Cont'd)*

Irrecoverable Debt Expenses T Account

Mark Allocation	Details	€/£	Details	€/£
1	Receivables	21,090		
½	Receivables	3,120		
½	Allowance for rec.	702	Income statement	24,912
		24,912		24,912

Irrecoverable debt recovered T Account

Details	€/£	Details	€/£	Mark Allocation
Income statement	1,100	Receivables	1,110	1
	1,100		1,100	

C. Carbon
Income statement for the year ended 31 December 2011 *(Extract)* **½ for title**

		Mark Allocation
Less Expenses		
Irrecoverable debts	24,912	½
Irrecoverable debts recovered	(1,110)	1

C. Carbon
Statement of financial position as at 31 December 2011 *(Extract)* **½ for title**

Current assets			Mark Allocation
Receivables	321,560		½
Allowances for receivables	(14,936)		1
		306,624	

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Solution Three

Part A

		Debit €/£	Credit €/£	Mark Allocation
1.				
Dr	Sales returns	4,470		½
Dr	Suspense	3,270		½
Cr	Purchases returns (returns outwards)		7,740	½
	Being purchases returns posted to the sales returns account in error			½
2.				
Dr	Sales returns	640		½
Cr	Receivables		640	½
	Being the book of original entry undercast			½
3.				
Dr	Cash	196		½
Cr	Receivable		196	½
	Being correction of error cash received from a customer treated as a cash payment.			½
4.				
Dr	Cash	2,140		½
Cr	Suspense		2,140	½
	Being cash balance omitted from the trial balance			½
5.				
Dr	Buildings – non-current assets	720		½
Dr	Repairs	1,720		½
Cr	Suspense		2,440	½
	Being the correction of an error of principle			½
6.				
Dr	Rent	6,000		½
Cr	Rent accrual		6,000	½
	Being the correction of an error of omission.			½
7.				
Dr	Receivables	5,000		¼
Cr	Sales		5,000	¼
Dr	Receivables	5,750		¼
Cr	Sales		5,000	¼
Cr	VAT		750	½
	Being the correction of error, VAT omitted from credit sale and credit sales incorrectly treated.			½

Part B

Suspense Account

Mark Allocation	Details	€/£	Details	€/£	Mark Allocation
1	Balance	1,310	Error 4	2,140	1
1	Error 1	3,270	Error 5	2,440	1
		4,580		4,580	

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Solution 3 *(Cont'd)*

Part C

Proprietor's Profit	**€/£**	**Mark Allocation**
	74,780	½
Error 1	3,270	½
Error 2	(640)	½
Error 3	-	½
Error 4	-	½
Error 5	(1,720)	½
Error 6	(6,000)	½
Error 7	10,000	½
	79,690	

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Solution Four

(i)

		€/£	Mark Allocation
Opening balance as per bank balance		27,970	1
Add outstanding Lodgement		7,070	1
Less O/S Cheques			
	596	(1,250)	1
Balance as per Bank T Account		33,790	

(ii)

Bank Account/Cash Book

Mark Allocation		€/£		€/£	Mark Allocation
1	Balance	14,779	Direct debits	1,010	1
1	Interest	31	Bank charges	211	1
			Dishonoured cheque	800	1
			Error cheque 598	45	1
			Error in lodgement	100	1
			Standing order	13,500	1
	Balance	856			
		15,666		15,666	
			Balance	856	

(iii)
Bank Reconciliation as at 31 January 2012

1 for title

			€/£	Mark Allocation
Balance per bank			1,025	1
Add outstanding Lodgement			4,110	1
Less O/S Cheques				
	604	42		1
	602	5,949		1
			(5,991)	
Balance			(856)	

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Solution 4 *(Cont'd)*
(iv)
To: Whom it May Concern
From: An Accounting Technician
Subject: Importance of Preparing Control Accounts
Date: 15/5/2012

I have been asked to prepare a report outlining the importance of regular preparation of bank reconciliations. It is important for all businesses to prepare regular bank reconciliations for the following reasons:

- Preparation of regular bank reconciliations will help to identify errors, such errors may have been made either by the bank, the sole trader or both. For example a business may have omitted to post receipts from customers.
- Preparation of bank reconciliation will also highlight items such as bank interest, charges, standing orders, direct debits and dishonoured cheques. These will be known by the bank but not identified by a business until it receives the bank statement and prepares the bank reconciliation.

Should you have any further queries please feel free to contact me.
An Accountant Technician

1 mark for format, 1 mark for each reason and ½ mark each example

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Solution Five

A. Arkady

Income statement for the year ended 31 December 2011 **½ for title**

		€/£	**€/£**	**Allo**
Sales			574,950	**0.5**
Sales returns			(6,770)	**0.5**
Net sales			568,180	
Cost of sales				
Opening inventory		41,010		**0.5**
Purchases	407,300			**0.5**
Purchases returns	(7,010)	400,290		**0.5**
Carriage inwards		790		**0.5**
		442,090		
Less closing inventory		(32,512)		**1.5**
Cost of sales			(409,578)	
Gross Profit			158,602	
Discount received			3,520	**0.5**
Less Expenses				
Insurance		17,420		
Rates and water charges		9,320		
Wages and salaries		104,575		
Discount allowed		2,100		**0.5**
Telephone and internet		6,020		
Depreciation of land buildings		4,408		**1**
Depreciation of equipment		6,580		**1**
Depreciation of motor vehicles		7,386		**1.5**
Profit on sold motor vehicle		(4,250)		**1.5**
Irrecoverable debts		950		
Interest		5,280		
Light and heat		8,790		
Total expenses			(168,579)	
Operating loss			(6,457)	

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Solution Five *(Cont'd)*

A. Arkady
Statement of financial position as at 31 December 2011 **½ for title**

	2011 €/£	2011 €/£	2011 €/£	Mark Allocation
Non-current assets				
Land and buildings	220,400	(92,568)	127,832	
Motor Vehicles	26,740	(25,026)	1,714	
Equipment	104,700	(45,480)	59,220	0.5
			188,766	
Current assets				
Closing inventory		32,512		
Receivables		98,170		0.5
Prepayments		410		0.5
Bank		84,850		2
			215,942	
Total assets			**404,708**	
Equity and Liabilities				
Equity				
Capital		224,765		1
Profits		55,643		1
Accumulated profits		280,408		
Drawings		(19,240)		1
			261,168	
Non-current liabilities			87,500	0.5
Current liabilities				
Payables		51,240		0.5
PRSI		4,800		1
			56,040	
Total Equity and Liabilities			**404,708**	

Workings

Workings 1

Product	Quantity	Cost per unit	Sales Price per unit	Costs to Sell per unit	NRV
	in Units	£/€	£/€	£/€	£/€
A	1,160	4.15	5.15	0.40	4.75
B	5,480	2.70	2.65	-	2.65
C	7,320	1.85	1.90	0.10	1.80

Lower of Cost and NRV

Product	Quantity	Lower of Cost and NRV			Valuation
	in Units	£/€			
A	1,160	4.15	*	=	4,814
B	5,480	2.65	*	=	14,522
C	7,320	1.80	*	=	13,176
				Total	**32,512**

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Solution Five *(Cont'd)*

Workings 2, 3 & 4

	€/£
Bank balance as per TB	25,500
Drawings (W2)	(1,150)
Payment to Revenue (W3)	(5,000)
Introduction of capital (W4)	50,000
Receipts from sale of car (W5)	15,500
Restated bank	84,850

	€/£
Drawings as per TB	18,090
Drawings	1,150
Restated drawings	19,240
PRSI liability as per TB	9,800
Payment to Revenue (W3)	(5,000)
Restated prsi liability	4,800
Capital as per TB	174,765
Capital introduced (W4)	50,000
	224,765

Workings 5

	€/£
Motor vehicle A	45,000
Annual	15%
	6,750

Depreciation on motor vehicle A for 2011
€/£6,750 / 12 * 6 = €/£3,375

	€/£
Cost of motor vehicle A	45,000
Accumulated depreciation at point of sale (€/£30,375 + €/£3,375)	(33,750)
NBV at point of sale	11,250

	€/£
Sales proceeds	15,500
NBV at point of sale	(11,250)
Profit on sale	4,250

Depreciation for 2011

Equipment	€/£
Cost	104,700
Accumulated depreciation	(38,900)
	65,800
Depreciation 10%	6,580

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Solution Five *(Cont'd)*

Land and buildings	**€/£**
Cost of land and buildings	220,400
Depreciation 2%	4,408

Motor Vehicles	**€/£**
Cost of MV as per TB	71,740
Cost of sold MV	(45,000)
	26,740
Depreciation 15%	4,011

Total MV depreciation for 2011: €/£4,011 + €/£3,375 = €/£7,386

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Solution Six

Part A

The accounting profession and governments worldwide have produced and continue to produce regulations that set out how information is presented in the financial statement and how that information is calculated.

Without a system of accounting regulations, preparers of financial statements would be able to adopt whatever accounting policies they wanted. This means that it would be impossible for users to assess the performance of an entity in a meaningful way. It would be also be impossible to compare the financial statements of different entities as users could not be certain that the financial statements of different entities had been prepared using the same accounting policies and therefore that the information was comparable.

In addition, in the absence of regulation preparers of financial statements might deliberately attempt to present an inaccurate picture of the entity's performance and position.

The most important sources of regulation for most entities are accounting standards and company law.

2 points for full marks

Part B

The overall aim of the regulatory environment is that financial statements give a true and fair view of the underlying financial performance and position of a business. While there is no formal definition for True and Fair view compliance with accounting standards and Company Law will normally be necessary for financial statements to give a true and fair view. True and fair refers to the financial statements and that the picture they portray of the underlying business performance (profitability) and position (assets and liabilities) is in fact a true and fair view representation.

The overall aim of all accounting regulation is thus to ensure that the financial statements of a business represent a true and fair view of the financial health of the business. This is crucial if the users of accounting information are to rely and make decision based upon the information presented to them in the financial statements.

2 marks

Part C

Relevance

Information should only be included in financial statements if it is relevant. Where relevant is taken to mean that the information has the ability to influence the economic decisions of users. The information must be provided in a timely manner i.e. in time to influence those decisions.

Materiality is a component of relevance. Information is material if its omission or misstatement could influence the economic decisions of users.

2 marks

Reliability

The Framework states that information is reliable if it possesses the following five characteristics:

1. It can be depended upon by users of accounting information to faithfully represent what it either purports to represent or could reasonably be expected to represent – that is that the information is not misrepresented or misleading. That is it gives a true and fair view.
2. It is free from deliberate or systematic bias - that is it is neutral.
3. It is free from material error. Users of accounting information can be reasonably assured that this is the case if the financial statements are accompanied by a clean (unqualified) audit report.
4. It is complete within the bounds of materiality.
5. In its preparation under conditions of uncertainty, a degree of caution that is prudence has been applied in exercising judgement and making the necessary estimates.

2 marks

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Solution Six *(Cont'd)*

Comparability
By examining a business's financial statements for one accounting year an individual would g relatively small amount of insight in terms of the financial performance and position of the business. order for financial information to be useful it must be comparable with the financial information of the business in previous accounting periods and with other businesses in the same industry. By comparing the financial information of a business over time one can assess trends and by comparing the financial of a business with other businesses one can assess how the business is doing vis a vis it's competitors. To be truly useful financial information must be comparable.

Comparability (both in presentation and calculation) can be achieved by being consistent in the use of accounting policies over time and where new policies are introduced for example the introduction of a new accounting standard by properly disclosing the change in accounting policies and the effect of the change when they happen.

2 marks

Understandability
In order for financial information to be of any real value it must be presented to the users of accounting information in a manner that is understandable. Understandability needs to be considered under two headings:

- users' abilities – the preparers of financial statements are entitled to assume that users have a reasonable knowledge of business activities and accounting and are willing to study the information provided in the financial statements;
- aggregation and classification – this must be done appropriately or financial statements will lose meaning.

2 marks

Part D

Going Concern
Financial transactions are usually prepared on the assumptions that the business will continue in operation for the foreseeable future. This is usually taken to mean 12 months from the date of the approval of the financial statements. This means that the financial statements are drawn up on the assumption that there is no intention or necessity to close down the business. For example assets are valued in the financial statements at their value in use to the business, as we are assuming the business is a going concern and not what the assets could realised in a fire sale, as would be the case if we assumed that the business was not a going concern. Where a business is not a going concern it is assumed that it will cease to trade in within the next 12 months and accounts are prepared on a break up basis.

3 marks

Matching/Accruals
Income is recognised in the financial statements as it is earned, not when the cash is received. Expenditure is recognised as it is incurred, not when it is paid for. When income is incurred over time (e.g. rental/interest income) or expenditures are time-based (e.g. rent payments), the income and expenditure recognised in the income statement should relate to the time period, not to the receipts and payments of cash. For example if a business sells goods in December 2011 but does not receive payment for those goods until January 2012 under the accruals concept that sales should be recorded in the financial statements for the year ended 31 December 2011, the year when the transaction took place and not in the financial statement for the year ended 31 December 2012, the year when the cash was actually received.

3 marks

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1st Year Examination: May 2012

Financial Accounting

Examiner's Report

Statistical Analysis – By Question						
Question No.	1	2	3	4	5	6
Average Mark (%)	41%	54%	48%	70%	67%	31%
Nos. Attempting	1099	1130	1103	956	1072	229

Statistical Analysis - Overall	
Pass Rate	60%
Average Mark	53%
Range of Marks	**Nos. of Students**
0-39	318
40-49	138
50-59	189
60-69	225
70 and over	286
Total No. Sitting Exam	1156
Total Absent	244
Total Approved Absent	48
Total No. Applied for Exam	1448

General Comments

The overall standard of answers was mixed. There was a significant improvement in question three, correction of error (bookkeeping) from prior sittings and this was very welcome. Yet candidates seemed unable to take this bookkeeping knowledge and transfer it to questions one and two, where bookkeeping was examined in a different way. This was disappointing.

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.

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;
- Some candidates are not taking sufficient care in the writing of their student numbers.

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Question 1

This question was poorly answered. This was particularly disappointing as part B of the question was repeated from Autumn 2011 where it was also poorly answered. The following points are made:

- Some candidates were careless in their time apportionment in parts A and B. For some candidates the number of months in a year did not add to 12;
- Some candidates entered items on the incorrect side of the T accounts, for both parts A and B;
- Some candidates treated the opening prepayments and accruals as rent payable as opposed to rent receivable;
- In part B some candidates did not complete both the interest **and** the loan T accounts as per the requirements of the question. While others combined the accounts together in error.

Question 2

Part A of the question was generally well answered. However some candidates:

- Included the opening allowance for receivables in the control account in error;
- Did not calculate credit sales and cash received from credit customers correctly;
- There was some confusion over the treatment of the irrecoverable debts previously written off recovered.

Part B was generally poorly answered. Marks were lost in the following areas:

- Workings for the calculations behind the closing allowance for receivables were either not clearly shown or not shown at all. Therefore attempt marks could not be awarded.
- The calculation of the closing allowance for receivables was poor:
  - Some candidates were adjusting for irrecoverable debts written off during the year again in error;
  - Some candidates were adjusting for irrecoverable debts previously written off recovered during the year in error;
  - Most candidates were unable to handle the specific allowance.
- Most candidates prepared a receivables account that was not required.
- Some candidates entered items on the incorrect side of the T accounts.
- Many candidates struggled to prepare an extract, some candidates wrote out a full IS and SFP which was a poor use of time.

Question 3

There was a marked improvement in correction of errors and suspense accounts when compared to previous sittings. This was very welcome. Some candidates are however still throwing away “easy” marks by not including narratives or including narratives which are inaccurate or incomplete and therefore marks cannot be awarded. Many candidates are still not attempting part C of the question and loosing marks as a result.

The adjustments which caused the most difficulty to candidates were as follows:

- Adjustment 3: some candidates did not spot that the entry to the customer’s account was also incorrect. While others thought the customer was a supplier;
- Adjustment 6: the majority of candidates did not spot that the rent charge to be accrued was only a six month charge. While others did not know the debit and credit entries required to record an accrual;
- Some candidates started preparing narratives but then stopped as the adjustments proceeded – as a result marks were lost.

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Question 4

A very popular choice of question amongst candidates, and generally candidates scored well o question.

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

- Some candidates simply ignored the first part of the question and did not reconcile the opening balance;
- Some candidates are still not preparing the answer in report format when it is specifically requested, throwing away "easy" marks.

Question 5

A very popular choice of question amongst candidates, and generally candidates scored well on the question. The majority of candidates are now presenting workings correctly for this question type; the same approach needs to be applied to other questions on the paper. Adjustments 2, 3 and 4 were generally 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;
- Treating the PRSI/NIC liability as an expense in error;
- Many candidates struggled with the disposal of the motor vehicle in adjustment 5, however where good workings were included most candidates scored good attempt marks.

Question 6

Very few candidates attempted this question. Those that did attempt it scored poorly, in many cases answers amounted to little more than waffle. Candidates that attempted the question seemed to have been "caught" for a question as in most cases it was evident that they did not know the theory upon which the question was based.