

OLLSCOIL NA hÉIREANN, GAILLIMH
THE NATIONAL UNIVERSITY OF IRELAND, GALWAY

SEMESTER TWO EXAMINATIONS 1999/00

SECOND COMMERCE EXAMINATIONS

FINANCIAL ACCOUNTING I

(AY206)

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Professor J. F. Collins
Mr F. Conaty
Ms E. Curtis

Time allowed: TWO AND A HALF HOURS

Candidates are required to attempt QUESTION ONE and ANY TWO of the remaining questions

Separate answer books are not required

Question 1 - COMPULSORY

Each of the multiple choice questions 1 – 9 carries 3 marks.

1. Sloe Ltd has a trade debtor balance of £6,200 and a balance on the Provision for bad debts of £290. Bad debts already written off amount to £480 and additional bad debts of £300 have been identified. The provision for bad debts should be maintained at 3% of trade debtors. Which of the following is correct after accounting for these items:
- a) Trade debtors, net: £5,257.40
 - b) Trade debtors, net: £5,714.00
 - c) Trade debtors, net: £6,013.00
 - d) Trade debtors, net: £5,723.00

2. Juniper Ltd owned a building which cost £55,000 in 1992 and was revalued to £82,500 at the end of 1998 when the net book value was £45,375. The building was sold for £70,000 in 1999 after charging depreciation of £2,500 for the year. Gain/loss recognised on the face of the profit and loss account on the sale of the building will be:
- a) Loss £10,000
 - b) Gain £15,000
 - c) Loss £12,500
 - d) Gain £27,125

3. Logan Ltd made the following purchases and sales of widgets during the year ended 31 December 1999:

Purchases			Sales	
Date	Units	Price	Date	Units
January	30	£28	February	15
March	50	£32	June	45
September	15	£34	August	10
October	20	£35	December	16

Using a First-in-First-out stock flow assumption, the stock of widgets on 31 December 1999 should be valued at:

- a) £ 920.00
 - b) £ 812.00
 - c) £1,015.00
 - d) £1,006.00
4. Rosehip Ltd has 500 washers on hand which cost 75p each. They could be sold immediately for 69p or further processed at a cost of 24p each. If further processed they could be sold for £1.06 and a sales commission of 10p would have to be paid to the salesman. The washers should be stated in the annual accounts at a value of:
- a) £345.00
 - b) £360.00
 - c) £410.00
 - d) £375.00

[Question one continues on next page...]

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5. If a company has £4,300 on one month deposit at the bank at the start of the year and £10,000 on one month deposit at the end of the year, this should be shown in the Cash Flow Statement as:
- a) Decrease in net debt/increase in net funds for the year.
 - b) Cash inflow from management of liquid resources for the year.
 - c) Cash outflow to management of liquid resources for the year.
 - d) Increase in cash during the year.
6. A company has a profit before interest and tax of £9,600. The depreciation charge for the year was £900; Debtors increased by £620; Creditors decreased by £400; stock decreased by £380 and the company made a gain on the sale of a fixed asset of £1,500. Assuming that these are the only items in the reconciliation from net profit from operations to net cash flow from operations, the correct figure for net cash flow from operations should be:
- a) £ 9,560
 - b) £ 8,360
 - c) £12,600
 - d) £ 9,160
7. The following information is available in respect of a company's bank account:
- o The balance as per the bank statement is £100,000.
 - o Unpresented cheques amount to £23,000.
 - o Uncleared lodgments amount to £16,000.
 - o Debits on the bank statements not in the accounting records amount to £8,000.
- Which of the following amounts represents the bank balance as per the Company's accounting records?
- a) £100,000
 - b) £ 85,000
 - c) £101,000
 - d) £ 99,000
8. You are given the following information in respect of Batik Ltd:
- o Purchases for the year amounted to £200,000.
 - o Opening stock of goods for resale amounted to £14,000.
 - o Sales for the year were £300,000.
 - o Gross profit margin was 50%.
- What was the company's closing stock?
- a) £36,000
 - b) £14,000
 - c) £32,000
 - d) £64,000

[Question one continues on next page...

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9. You have ascertained the following from the financial statements of the partnership of Broad, Haricot and Kidney in respect of the financial year just ended:
- Profit before partners salary and interest on capital amount to £45,000.
 - Kidney as the only partner working in the business, receives a salary of £15,000.
 - Interest is to be provided on Capital accounts at 10%. The balances on these accounts currently stand at £10,000, £15,000 and £13,000 in respect of Broad, Haricot & Kidney respectively.
 - Profits are shared, Broad; 30%, Haricot; 40%, Kidney; 30%.
- What profit share does each partner receive?
- a) Broad; £13,860, Haricot; £18,480, Kidney; £13,860
 - b) Broad; £ 9,000, Haricot; £12,000, Kidney; £ 9,000
 - c) Broad; £ 7,860, Haricot; £10,480, Kidney; £ 7,860
 - d) Broad; £13,500, Haricot; £18,000, Kidney; £13,500

Each of the multiple choice questions 10 - 13 carries 1 ½ marks.

10. According to *FRS 3 Reporting financial Performance*, which of the following is not an exceptional item required to be shown on the face of the profit and loss account?
- a) Gain on revaluation of a fixed asset.
 - b) Profit on sale of a fixed asset.
 - c) Costs of a fundamental reorganisation of the business.
 - d) Losses incurred on termination of a significant business segment.
11. Which of the following should be treated as a prior year adjustment under *FRS 3 Reporting Financial Performance*?
- a) Change in depreciation rate on an asset
 - b) Change in accounting policy for fixed assets
 - c) Change in estimated useful life of an asset
 - d) Change in estimated residual value of an asset
12. Which of the following is not a specific requirement of Section 202 of the Companies Act 1990 concerning the maintenance of proper books of account?
- a) the books must contain entries from day to day of all sums of money received and expended by the company;
 - b) the books must give a true and fair view of the state of affairs of the company and explain its transactions;
 - c) the books must be submitted for review annually, in financial statement summary form, to the State Auditor General within a period not exceeding twelve months from the company's year end;
 - d) the books must be kept in an official language of the state or be readily convertible into such a language.

[Question one continues on next page...

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13. Which of the following would not be considered to be a control element in an accounting system?

- a) Adequate segregation of duties.
- b) Columnar format accounts.
- c) Independent checks on performance.
- d) An adequate organisational structure.

Total marks 33

Question 2

The following is a list of balances from the accounts of Mersch Ltd at 31 December 1999:

	Dr £'000	Cr £'000
Advertising costs	15	
Auditors' fees	10	
Administration expenses	70	
Bank loan		110
Cash at bank	31	
Cost of sales	424	
Current asset investments	130	
Directors' emoluments	96	
Dividend income		20
Distribution costs	56	
Depreciation charge - motor vehicles	10	
Interest expense	8	
Motor vehicles – cost	90	
aggregate depreciation		20
Profit and loss account at 1 January 1999		68
Share capital		80
Share premium		50
Stock at 31 December 1999	143	
Trade creditors		60
Trade debtors	97	
Turnover		772
	<u>1,180</u>	<u>1,180</u>

Additional information:

1. The bank loan bears interest at the rate of 7% per annum and is secured by a floating charge over the assets of the company. It is repayable by instalments of £10,000 per annum over the next eleven years.

[Question two continues on next page...]

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2. The current asset investments, which are currently stated at historical cost, are composed as follows:

Company	No of shares held	Historical cost per share	Market value per share at 31 December 1999
Jones plc	5,000	£8.00	£10.50
James plc	10,000	£7.50	£5.00
John plc	3,000	£5.00	£3.50

The Directors believe the diminution in value of James and John is due to conditions in the stock market and is therefore temporary.

3. Included in administration expenses is the gain on the sale of a fixed asset sold during the year of £30,000. Included in cost of sales is a loss of £60,000 in respect of stock destroyed by serious flooding during the year. The company's insurance policy does not cover flood damage.
4. Directors emoluments are composed as follows:

Director	Fees for services as director	Other emoluments
Marketing Director	6	26
Managing Director	6	30
Production Director	6	22

5. The estimated tax charge of £25,000 for the year ended 31 December 1999 should be accrued.
6. The company paid rates of £2,400 for the period 1 September 1999 to 1 September 2000 on 1 November 1999. Rates are included in administration expenses.

Required:

- a) Prepare the profit and loss account for Mersch Ltd for the year ended 31 December 1999, and a balance sheet at that date, in a form suitable for publication, including relevant notes, so far as this is possible from the available information.

(26 marks)

- b) Explain the terms 'exceptional item' and 'extraordinary item' and describe how they should be treated in accordance with *FRS 3 Reporting financial performance*.

(7 ½ marks)

Total marks 33 ½

P.T.O.

Question 3

Part A

You are given the following information about the fixed assets of Remich Ltd at 1 January 1999.

	Land	Buildings	Plant and machinery
Cost/valuation	100,000	50,000	30,000
Aggregate depreciation	-	(8,000)	(13,125)
Net book value	100,000	42,000	16,875

The balance on the revaluation reserve amounted to £40,000 at 1 January 1999. During the year the following occurred:

The land had originally cost £60,000 and was revalued two years ago. On 30 December 1999 Garvey & Co professional valuers performed a valuation of the land which gave rise to a value of £50,000. There were no additions or disposals of land, and land is not depreciated.

The building, which has been carried at cost to date, was being depreciated on a straight line basis over an estimated useful life of 50 years. This building was valued on 1 January 1999 at £84,000. There were no additions or disposals of buildings during the year.

Plant which had a cost of £8,000 and a net book value of £3,000 was sold during the year. New machinery was acquired at cost of £13,000 during the year. Plant is depreciated on a reducing balance basis at the rate of 25% per annum. A full year's depreciation is charged on all plant and equipment acquired during the year and none is charged on assets disposed of during the year.

Required:

Prepare the fixed asset note to the accounts of Remich Ltd. for the year ended 31 December 1999 and show the movements on revaluation reserve during the year (either in columnar or T-account format). You should also prepare a summary of charges/credits in the profit and loss account related to fixed assets.

(15 marks)

Part B

A friend of yours, Ray Schadeck, who set up his own business recently has asked you for some help as he says his accountant is terribly confusing on the subject of stock valuation. He produces only one product, and during the year ended 30 September 1999 he incurred the following costs:

[Question three continues on next page...]

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- He uses only one raw material input Q. He purchased a total of 30,000 units of Q in January 1999. The invoice shows a cost of £1.00 per unit. Import duties amounting to 20p per unit were incurred on this material, however as he bought only once in bulk for the year, the supplier gave him a 2% discount off the total amount invoiced.
- 25,000 units of Q were used in production and 5000 remain on hand at year end.
- Labour costs and variable production overheads amounted to 50p per unit.
- Fixed production overheads amounted to £20,000; administration expenses which related solely to the cost of his secretary, amounted to £15,000 and variable selling and distribution expenses amounted to £8,000.
- Each unit of raw material is converted into 1 unit of finished goods. 20,000 units of finished good were sold during the year and 5000 remained in stock at the end of the year. There was no work-in-progress at 31 December 1999.
- The selling price of each unit of finished goods is £2.90 and this is unlikely to change in the near future. Raw materials on hand could be sold for £1.09 without further processing.

You are required to:

- a) Write a memo to Ray explaining the basis on which stocks should be valued in the financial statements as set out in *SSAP 9 Accounting for Stocks and Long term contracts*.
(10 ½ marks)
- b) Your memo should set out clearly the appropriate valuation for stock in Ray's accounts for the year ended 30 September 1999.
(8 marks)

Total marks 33 ½

Question 4

Tim Redmond imports and distributes high quality ceramic tiles. Trading under the name 'Ceramital' Tim has been in business for over eight years. Having recently upgraded his computer system Tim celebrated his web page going live in November of last year. Unfortunately internet capability came with its own risks and due to an ill fated file download in the first days of January, Tim's system was devastated with a particularly nasty computer virus. Having lost practically all of his accounting records he has solicited the help of his accountant to piece things together.

[Question four continues on next page...

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The following nominal ledger balances as at 31st December 1998 and 1999 have been recovered:

Ledger Balances Recovered:	1998	1999
	£	£
Bank balance	2,300	?
Cash on hand	250	380
Trade debtors	13,640	16,660
Trade creditors	7,680	12,880
Stock for resale	?	7,360
Accrued motor expenses	180	260
Prepaid rent	500	?
Motor vehicle at cost	8,200	8,200

From discussions with Tim the following aspects of the business have emerged:

1. Tim operates a single business bank account through which, apart from certain cash sales and expenses, all business receipts and payments are handled.
2. A strict mark-up policy is followed, with a mark-up on cost of 40% applied to cash sales and 38% to credit sales.
3. A credit account is operated with all suppliers. Payment to the suppliers is effected by bank transfer from the business bank account.
4. Cash receipts from debtors are banked immediately to the business account. Cash receipts from cash sales are banked weekly. Certain expenses are paid in cash.
5. The only business motor vehicle was purchased in 1998. Depreciation is provided in full in the year of acquisition. The depreciation policy that had been followed aimed to write down the motor vehicle to an estimated residual value of £1,200, over five years.

An analysis of the business bank statements produces the following summary of bank transactions for the year:

Bank Account Statement Analysis:	Receipts	Payments
	£	£
Cheques to suppliers		127,440
Debtor receipts lodged	176,380	
Net cash sale receipts lodged	3,180	
Rent paid		5,500
Motor expenses paid		2,180
Wages		10,400
Other expenses		8,250
Tim Redmond personal expenses		3,680
Tim Redmond drawings		22,800

[Question four continues on next page...

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The following additional information comes to light from a thorough examination of business documents and correspondence:

1. The business premises are rented for an annual rent of £6,000.
2. Two cheques amounting to £200 and £115, drawn in December to pay for general expenses did not go through the business bank account until January and February of 2000 respectively.
3. The final lodgement for the year of net cash sale receipts, of £180, was not credited to the business bank account until January.
4. Till readings and records indicate that cash sales for the year amounted to £6,860.
5. A rough record of cash payments for general business expenses indicates that £2,420 was expended in this manner.

You are required to:

- (a) prepare a profit and loss account for the year ended 31st December 1999 and balance sheet as at that date, detailed workings should be appended to support the financial statements. **(25 Marks)**
- (b) in circumstances such as those in the case of Tim Redmond above, actual cash on hand may turn out to be less than the balance as determined by deducting known cash payments from known cash receipts, outline two possible explanations for such differences, other than that which you employed in answering a) above, and explain how they might be accounted for. **(5 Marks)**
- (c) in the case of a 'Limited Company', who are ultimately responsible for the maintenance of proper books of account and what are the implications for those persons for failing to do so? **(3 ½ Marks)**

Total marks 33 ½