

UNIVERSITY OF BOLTON

OFF CAMPUS DIVISION

WESTERN INTERNATIONAL COLLEGE

BA (HONS) ACCOUNTANCY

SEMESTER 1 EXAMINATIONS 2023/2024

FINANCIAL ACCOUNTING FUNDAMENTALS

MODULE NO: ACC4013

Date: Monday 8th January 2024

Time: 10.00am – 1.00pm

INSTRUCTIONS TO CANDIDATES:

There are **FOUR** questions on this paper.

Answer **ALL** questions.

Use of calculators is permitted.
You need to show all your workings.

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Question 1

Juland Co operates a chain of wholesale grocery outlets. Its first account balances at 30 June 2023 was as follows:

	£000	£000
Revenue		13,600
Purchases	8,100	
Inventory 1 July 2022	1,530	
Distribution costs	1,460	
Administrative expenses	1,590	
Interest on loan notes	50	
Dividends declared and paid:		
Final for year ended 30 June 2022	480	
Interim for year ended 30 June 2023	360	
Land at cost	1,510	
Buildings		
– Cost	8,300	
– Accumulated depreciation at 30 June 2022		1,020
Warehouse and office equipment		
– Cost	1,800	
– Accumulated depreciation at 30 June 2022		290
Motor vehicles		
– Cost	1,680	
– Accumulated depreciation at 30 June 2022		620
Trade receivables	810	
Allowance for receivables		18
Cash at bank	140	
Trade payables		820
10% loan notes		1,000
Called up share capital – Ordinary shares of 25p each		1,200
Share premium account		2,470
Retained earnings 30 June 2022		6,772
	—————	—————
	27,810	27,810
	—————	—————

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The following additional information is available:

- (1) Inventory at 30 June 2023 was valued at £1,660,000.
- (2) Trade receivables' balances totalling £6,000 are to be written off and the specific allowance for receivables increased to £30,000. It is the entity's practice to include the charge for Irrecoverable debts and the allowance for receivables in administrative expenses in the statement of profit or loss.
- (3) Accruals and prepayments at the year-end were:

	<i>Prepayments</i>	<i>Accruals</i>
	£000	£000
Distribution costs	60	120
Administrative expenses	70	190
Interest on loan notes	–	50

- (4) In early July 2023 Juland Co received invoices for credit purchases totalling £18,000 for goods delivered before 30 June. These invoices have not been included in the accounts payable at 30 June 2023.

It was also found that credit sales invoices totalling £7,000 for goods delivered to customers before 30 June 2023 had mistakenly been dated in July 2023 and thus excluded from sales for the year and from accounts receivable at the year end.

The goods received had been included in the year-end inventory figure given at (1) above, and the goods sold had been excluded from it. No adjustment to the inventory figure is therefore required.

- (5) Depreciation should be provided as follows:

Land	Nil
Buildings	2 % per year on cost
Warehouse and office equipment	15 % per year on cost
Motor vehicles	25 % per year on cost

All depreciation is to be divided equally between distribution costs and administrative expenses.

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Required:

Complying with the requirements of IAS 1 Presentation of Financial Statements,

- a) **Prepare Juland Co's statement of profit or loss for the year ended 30 June 2023 and Statement of Financial Position as at that date.**

You should ignore taxation and notes to the financial statements are not required.

(30 Marks)

- b) **In accordance with IAS 38 Intangible Assets, define and explain the treatment of:**

I. **Research costs**

(3 Marks)

II. **Development costs**

(4 Marks)

III. **Amortisation**

(3 Marks)

Total 40 Marks

End of question 1

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Question 2

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Bronny is an entity that manufactures and retails office products. The directors are reviewing the results for the year ended 30 June 2023. Its summarised financial statements for the years ended 30 June 2022 and 2023 are given below:

Statements of profit or loss for the year ended 30 June

	2022 (£000)	2023 (£000)
Revenue	579,925	695,910
Cost of Sales	(376,725)	(525,413)
Gross Profit	203,200	170,498
Operating Expenses	(85,475)	(80,725)
Profit from Operations	117,725	89,773
Finance Costs	(7,000)	(5,000)
Profits Before Tax	110,725	84,773
Tax	(33,150)	(25,400)
Net Profit	77,575	59,372

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Statement of financial position as at 30 June

	2022		2023	
	£000	£000	£000	£000

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Non-current assets		170,700		254,795
Current Assets				
Inventory	44,380		54,700	
Receivables	103,275		209,728	
Bank	47,700		–	
	_____		_____	
		195,355		264,428
		_____		_____
		366,055		519,223
		_____		_____
Equity and reserves				
Share capital	50,000		50,000	
Share premium	10,000		10,000	
Revaluation reserve	–		25,000	
Retained earnings	143,710		188,083	
	_____		_____	
		203,710		273,083
		_____		_____
Non-current liabilities				
Loans		41,550		30,800
		_____		_____
Current liabilities				
Payables	89,795		172,740	
Overdraft	–		15,100	
Tax	31,000		27,500	
	_____		_____	
		120,795		215,340
		_____		_____
		366,055		519,223
		_____		_____

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Question 2 continues

Required:

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a) Calculate the following financial ratios of Bronny for 2022 and 2023:

- I. Operating Profit Margin (2 marks)
- II. Return on Capital Employed(ROCE) (2 marks)
- III. Asset Turnover (2 marks)
- IV. Inventory Days (2 marks)
- V. Receivables days (2 marks)
- VI. Current Ratio (2 marks)
- VII. Quick Ratio (2 marks)

b) Briefly evaluate the performance of Bronny upon the profitability, liquidity and efficiency based on the above ratio analysis.

(6 Marks)

Total 20 Marks

End of question 2

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Question 3
Part (a)

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The following is a summary of Jiten's cash at bank ledger account as presented to you for the month of December 2023:

Cash at bank ledger account			
	£		£
Receipts	1,469	Balance c/f	761
Balance c/f	<u>554</u>	Payments	<u>1,262</u>
	<u>2023</u>		<u>2023</u>

All receipts are banked and all payments are made by cheque. Upon investigation you discover:

- 1 Bank charges of £136 entered on the bank statement had not been entered in the cash at bank ledger account.
- 2 Cheques drawn amounting to £267 had not been presented to the bank for payment.
- 3 The accounting entries for a cheque payment of £22 had been reversed and accounted for as a receipt in the cash at bank ledger account instead of as a payment;
- 4 A cheque drawn for £6 had been incorrectly entered in the cash at bank ledger account as £66.

Required:

- a) Update the cash at bank ledger account

(8 Marks)

- b) Prepare the bank reconciliation statement to show the missing balance on the bank statement at 31 December 2023.

(6 Marks)

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Question 3 continues

Part(b)

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IAS 10 *Events after the reporting period* defines the treatment to be given to events arising after the reporting date but before the financial statements are authorised for issue outside the enterprise.

Required:

How does IAS 10 distinguish between events after the reporting period which should be adjusted in financial statements and those which should be disclosed by note only?

(6 Marks)

Total 20 Marks

End of question 3

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Question 4

Write all your answers in the answer booklet showing workings where required.

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- I. Sakira has started a business and transferred a personally owned computer, at a value of £1,500 into the business.

What are the accounting entries to record this?

- | | | |
|---|-----------------------|-----------------------|
| A | Dr Capital | Cr Computer equipment |
| B | Dr Computer equipment | Cr Capital |
| C | Dr Computer equipment | Cr Drawings |
| D | Dr Drawings | Cr Computer equipment |

(1 Mark)

- II. **What accounting entries are required in the general ledger to record settlement discount received from suppliers?**

- | | | |
|---|------------------------|------------------------|
| A | Dr Discounts received | Cr Payables account |
| B | Dr Receivables account | Cr Discounts received |
| C | Dr Discounts received | Cr Receivables account |
| D | Dr Payables account | Cr Discounts received |

(1 Mark)

- III. **Which of the following items appear on the same side of the trial balance?**

- | | |
|---|---|
| A | Capital and Sales |
| B | Purchases and Discounts received |
| C | Motor expenses and Loan account |
| D | Accrued income and Accumulated depreciation |

(1 Mark)

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- IV. MS sells three products – Small, Medium and Large. The following information was available at the year end:

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	<i>Small</i> £ per unit	<i>Medium</i> £ per unit	<i>Large</i> £ per unit
Original cost	5	10	15
Estimated selling price	8	13	18
Selling and distribution costs	2	4	6
	units	units	units
Units in inventory	250	100	150

What is the value of inventory at the end of the year?

- A £4,500
- B £3,950
- C £4,200
- D £2,700

(2 Marks)

V. Frank started the month with an overdrawn balance of £1,750 per the bank statement.

- 1 Frank withdrew £225 per month to cover living expenses.
- 2 An early settlement discount of £20 was received by Frank on a purchase of £650.
- 3 An amount of £500 was received from a credit customer.
- 4 Bankings of £1,300 from petty cash.

What is the balance per the bank account after these transactions in November?

- A £805 credit
- B £805 debit
- C £2,695 credit
- D £825 debit

(2 Marks)

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- VI.** MNB Co extracted a trial balance which included a suspense account. The suspense account related to a query on one transaction. A credit supplier had agreed an early settlement discount of £200 with MNB Co. The accounting entry to the trade payables general ledger account had been made correctly, but the accounts clerk was unsure of which general ledger account should be used to complete the double-entry in the general ledger.

What will be the correcting journal entry?

- A Debit Discounts account £200, Credit Suspense account £200
- B Debit Suspense account £200, Credit Discounts account £200
- C Debit Discounts account £400, Credit Suspense account £400
- D Debit Suspense account £400, Credit Discounts account £400

(1 Mark)

- VII.** Lizzy Co recorded an amount of £3,175 for rent and rates paid, when the correct amount should have been £1,375.

What would be the journal to correct this error?

- A Dr Suspense £1,800 Cr Rent and rates £1,800
- B Dr Bank £1,800 Cr Rent and rates £1,800
- C Dr Rent and rates £1,800 Cr Suspense £1,800
- D Dr Rent and rates £1,800 Cr Bank £1,800

(1 Mark)

- VIII.** A business compiled the following information for the year ended 31 October 2023:

	£
Opening inventory	386,200
Purchases	989,000
Closing inventory	422,700

The gross profit as a percentage of sales is always 40%

Based on these figures, what was the revenue for the year?

- A £1,333,500
- B £1,587,500
- C £2,381,250
- D The revenue figure cannot be calculated from this information

(2 Marks)

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IX. Which of the following is not shown in the statement of cash flows?

- A Cash flows from investing activities
- B Cash flows from financing activities
- C Cash flows from profits of the business
- D Cash flows from operating activities

(1 Mark)

X. How is the gearing ratio normally calculated?

- A Long-term loans as a percentage of total share capital and reserves
- B Current and long-term debt as a percentage of total assets less current liabilities
- C Total share capital and reserves as a percentage of long-term loans
- D Total share capital and reserves as a percentage of total equity plus total liabilities

(1 Mark)

XI. Jackie was reviewing the trial balance prior to preparing the financial statements. During the review, Jackie noticed that the repairs and renewals expense account balance appeared to be very high.

What could be a possible reason for the repairs and renewals account being overstated?

- A Several repairs invoices had not yet been recorded in the accounting system
- B An invoice for a major repair to a machine had been classified as asset expenditure
- C An item of asset expenditure had incorrectly been debited to the repairs and renewals account
- D Jackie had issued more sales invoices to customers

(1 Mark)

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- XII.** In the year to 31 December 2023 Basanti had cash receipts in respect of rental income of £49,200. The amounts of rent received in advance and due in arrears were as follows:

	31 Dec 2023	31 Dec 2022
	£	£
Rent received in advance	2,400	2,600
Rent due in arrears	1,800	1,400

What figure for rental income should Basanti record in the statement of profit or loss for the year ended 31 December 2023?

(3 Marks)

- XIII.** The following information is relevant to Johnson Co:

	£
Opening inventory	13,500
Closing inventory	18,160
Purchases	299,000
Expenses	114,400
Carriage in	3,500
Carriage out	7,700
Depreciation	40,000

What is the cost of sales for the accounting period?

(3 Marks)

Total 20 Marks

END OF QUESTIONS

END OF EXAM PAPER