UNIVERSITY OF BOLTON

RAK ACADEMIC CENTRE

ACCOUNTANCY

SEMESTER 1 EXAMINATIONS 2019/2020

FINANCIAL ACCOUNTING FUNDAMENTALS

MODULE NO: ACC4013

Date: Wednesday 15th January 2020   Time: 1.00pm – 4.00pm

INSTRUCTIONS TO CANDIDATES:

There are TWO sections on this paper. You must answer FOUR questions ONLY as follows:

Answer ALL THREE questions in section ONE and ONE question ONLY from section TWO.

Silent calculators may be used. This is a closed book examination.

University of Bolton
RAK Academic Centre
Accountancy
Semester 1 Examination 2019/20
Financial Accounting Fundamentals
Module No. ACC4013

SECTION ONE: Answer all questions in this section

Question 1

The following trial balance was taken from the books of Roopas Shop, a local retailer, on 31 December 2019.

	Dr (£)	Cr(£)
Purchases	42,498	
Sales		129,141
Inventory (1 Jan 2019)	10,233	
Returns	324	837
Discounts	513	1,458
Drawings	46,872	
Buildings at cost	135,000	
Provision for depreciation: Buildings		13,500
Fixtures and Fittings	32,400	
Provision for depreciation: Fixtures and Fittings		4,050
Wages and Salaries	25,137	
Advertising	3,051	
Rates	11,124	
Sundry Expenses	9,976	
Bank	5,427	
Cash	162	
Trade Receivables	6,750	
Bad Debts	135	
Provision for doubtful debts		702
Trade Payables		5,049
VAT		4,374
Capital		109,741
Long term loan		60,750
	329,602	**329,602**

Question 1 continues over the page

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University of Bolton
RAK Academic Centre
Accountancy
Semester 1 Examination 2019/20
Financial Accounting Fundamentals
Module No. ACC4013

Question 1 continued

You are required to process the following transactions:

1. Inventory was valued at £8,181 on 31 December 2019
2. Depreciate buildings at 3% using reducing balance method
3. Depreciate fixtures and fittings at 8% per annum using straight line method
4. Provision for doubtful debts is to be 5% of trade receivables
5. Wages accrued are £675
6. Advertising prepaid is £472

Required:
(a) Prepare the income statement for the year ended 31 December 2019
(12 Marks)

(b) Prepare a Statement of Financial Position as at 31 December 2019
(13 Marks)

(c) Roopas partner owns a takeaway, he is confused with how to value closing inventory. He has asked Roopa to ask her accountant for some help with this matter.
Roopas partner sells three products Moon Bites, Star Bites and Galaxy Bites. The following information was available at year end:

	Moon Bites	Star Bites	Galaxy Bites
	£	£	£
Cost	14	20	38
Net Realisable Value	20	16	30
Units	100	150	175

Required:
According to IAS 2 what was the value of the closing inventory?
(5 Marks)

Total 30 Marks

PLEASE TURN THE PAGE

University of Bolton
RAK Academic Centre
Accountancy
Semester 1 Examination 2019/20
Financial Accounting Fundamentals
Module No. ACC4013

Question 2

Michael and Matthew are the owners of an accountancy firm, offering their services to local businesses in the Bolton area. They set up in partnership on 1st January 2019. Michael invested £30,000 as capital, and Matthew invested £15,000 as his capital. As the business has only started trading both partners are being cautious on the drawings that they take from the business. Interest would be charged on any drawings made.

The partnership agreement is as follows:

Charges:
- Interest on drawings 1% on a pro-rata monthly basis.

Entitlements:
- Profits/losses to be shared in the ratio of the initial capital provided by each partner.
- Michael and Matthew are entitled to an annual salary of £2,250 and £1,500 respectively.
- Interest on capital at 4% per year on each partners opening balance on their capital.
- Interest on any loans made by the partners to be 3% on a pro-rata monthly basis.

The partners were to keep separate capital and current accounts.

Net profit for the year to 31 December 2019 amounted to £20,880.

During the year the partners had made drawings as below:
Michael - £2,000 on 1 July 2019, and £350 on 31 December 2019
Matthew - £1,200 at the end of June 2019 and £550 on 30 September 2019.

On 1 July 2019, the business required some extra funds in order to expand, and Michael made a loan to the partnership of £2,250.

Question 2 continues over the page

PLEASE TURN THE PAGE

University of Bolton
RAK Academic Centre
Accountancy
Semester 1 Examination 2019/20
Financial Accounting Fundamentals
Module No. ACC4013

Question 2 continued

Required:

(a) Prepare the partnership appropriation account for the year ended 31 December 2019.

(12 Marks)

(b) Prepare the partner's capital and current accounts using "T" accounts.

(11 Marks)

(c) Explain the importance of drawing up a partnership agreement.

(2 Marks)

Total 25 marks

Question 3

The following is the cash book for M Chitambo for the month of July 2019. M Chitambo has identified a possible error in the cash book which needs correcting.

		£			£
		M. Chitambo Cash Book			
21-Jul	Balance b/d	585.00	22-Jul	T Potney	135.00
22-Jul	Sales	315.00	24-Jul	H Bottle	117.80
24-Jul	C Song	168.75	25-Jul	M Prawn	82.35
26-Jul	O Paddy	189.83	26-Jul	G Dwane	43.20

Question 3 continues over the page

PLEASE TURN THE PAGE

University of Bolton
RAK Academic Centre
Accountancy
Semester 1 Examination 2019/20
Financial Accounting Fundamentals
Module No. ACC4013

Question 3 continued

Chitambo received the following bank statement at the end of July 2019:

Bank Statement : Notty Bank				
Account Holder: M Chitambo				
Date	Detail	Debit	Credit	Balance
		£	£	£
21-Jul	BALANCE			585.00
22-Jul	T Potney	135.00		450.00
22-Jul	Sundries		315.00	765.00
24-Jul	H Bottle	118.80		646.20
24-Jul	DD Re: RCC	90.00		556.20
24-Jul	C Song		168.75	724.95
25-Jul	SO Re: A/C 127	30.00		694.95
27-Jul	Bank Charges	15.00		679.95
DD= Direct Debit **SO = Standing Order**				

Required:

(a) Rewrite and balance the cashbook as at 31 July 2019 making any necessary adjustments and bring down any relevant balances.

(10 Marks)

(b) Prepare a Bank Reconciliation Statement as at 31 July 2019.

(8 Marks)

(c) You work as an accounts clerk in the office of M. Chitambo. One of your tasks at the end of each month is to reconcile the bank statement with the company's cash book. You are due to go on holiday next month. A trainee student will be undertaking the bank reconciliation task. You are required to prepare some instructions that the student can follow when performing the task.

(7 Marks)

Total 25 Marks

PLEASE TURN THE PAGE

University of Bolton
RAK Academic Centre
Accountancy
Semester 1 Examination 2019/20
Financial Accounting Fundamentals
Module No. ACC4013

SECTION TWO: Answer ONE question ONLY from this section

Question 4

(a) Discuss the use of a sales ledger control account, purchase ledger control account and suspense accounts in double-entry book keeping.

(10 Marks)

(b) Define and discuss in brief following accounting concepts: going concern; accruals (or matching): consistency and prudence.

(10 Marks)

Total 20 Marks

Question 5

(a) You are an accounts assistant working at Rollies Chartered Accountants. A part-time trainee accounts assistant is confused with understanding capital and revenue expenditure. You are required to write a memo to her to explain what capital and revenue expenditure is **and** categorise the following expenditure into capital/revenue or both:
   - Purchase of an extra grinding machine (includes £300 for repair of the old machine) - £1,300
   - Cost of rebuilding warehouse wall which had fallen down – £2,750
   - Building extension to warehouse - £21,000
   - Painting extension to warehouse when first built - £500
   - Cost of repainting the office - £460

(10 Marks)

(b) IAS 16 Property Plant and Equipment defines depreciation as "the systematic allocation of the depreciable amount of an asset over it's useful life" (IAS 16 para 6).

The following information relates to Tony and Guss, a textile manufacturer:

	Machine 1	Machine 2
Cost	£24,000	£16,000
Purchase Date	1 July 20X8	1 September 20x9
Depreciation Method	20% straight line pro rata	10% reducing balance pro rata

Required:
Calculate the total depreciation charge for the years ended 31 December 20X8 and 20X9?

(10 Marks)

Total 20 Marks

END OF EXAMINATION