

**UNIVERSITY OF BOLTON**

**OFF CAMPUS DIVISION**

**WESTERN INTERNATIONAL COLLEGE**

**BA (HONS) ACCOUNTANCY**

**SEMESTER ONE EXAMINATION 2024/2025**

**FINANCIAL ACCOUNTING FUNDAMENTALS**

**MODULE NO: ACC4013**

Date: Tuesday, 7 January 2025

Time: 1:00 pm – 4:00 pm

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**INSTRUCTIONS TO CANDIDATES:**

There are **FOUR (4)** questions on this paper

Answer **ALL FOUR (4)** questions.

This is a 3-hour closed book examination.

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

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**QUESTION 1**

Blake Co has been trading for a long time. Its first account balances at 30 June 2024 were as follows:

	£000	£000
Revenue		13,607
Purchases	8,118	
Inventory 1 July 2023	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 2023	480	
Interim for year ended 30 June 2024	360	
Land at cost	1,510	
Buildings		
– Cost	8,300	
– Accumulated depreciation at 30 June 2023		1,020
Warehouse and office equipment		
– Cost	1,800	
– Accumulated depreciation at 30 June 2023		290
Motor vehicles		
– Cost	1,680	
– Accumulated depreciation at 30 June 2023		620
Trade receivables	817	
Allowance for receivables		18
Cash at bank	140	
Trade payables		838
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 2023		6,772
	27,835	27,835

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### Question 1 continued...

The following additional information is available:

- (1) Year-end Inventory at 30 June 2024 - £1,660,000
- (2) Bad debts of 6,000 are to be written off and the trade receivable allowance is to be increased to £30,000. The charge for Irrecoverable debts and the allowance for receivables is in administrative expenses.
- (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) Depreciation should be provided as follows:

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

### Required:

Complying with the requirements of IAS 1 Presentation of Financial Statements, Prepare Blake's statement of profit or loss for the year ended 30 June 2024 and Statement of Financial Position as at that date.

**(25 marks)**

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

**[TOTAL 25 MARKS]**

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## QUESTION 2

The financial statements of J&J Co for the year ended 31 July 2024, with comparatives, are presented below.

### Statement of profit or loss and other comprehensive income – year ended 31 July

	2024	2023
	£000	£000
Revenue	1,391,820	1,159,850
Cost of sales	(1,050,825)	(753,450)
Gross profit	340,995	406,400
Operating expenses	(161,450)	(170,950)
Finance costs	(10,000)	(14,000)
Profit before tax	169,545	221,450
Tax	(50,800)	(66,300)
Profit for the year	118,745	155,150
Other comprehensive income:		
Revaluation surplus on land and buildings	10,000	
Total comprehensive income for the year	128,745	155,150

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**Question 2 continued...**

**Statement of financial position at 31 July**

	<b>2024</b>	<b>2023</b>
	£000	£000
<b>Non-current assets</b>		
Property, plant and equipment	559,590	341,400
<b>Current assets</b>		
Inventory	109,400	88,760
Receivables	419,455	206,550
Bank		95,400
	1,088,445	732,110
<b>Equity and reserves</b>		
Equity shares, £1	140,000	100,000
Share premium	40,000	20,000
Revaluation reserve	10,000	
Retained earnings	406,165	287,420
	596,165	407,420
<b>Non-current liabilities</b>		
10% Bank loan	61,600	83,100
<b>Current liabilities</b>		
Payables	345,480	179,590
Bank overdraft	30,200	
Taxation	55,000	62,000
	1,088,445	732,110

**Question 2 continued over the page...**

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**Question 2 continued...**

**Required:**

- a) Calculate the following ratios of J&J co for the year ended 31 July 2024 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. Receivable days (2 marks)
  - VI. Current Ratio (2 marks)
  - VII. Quick Ratio (2 marks)
- b) Briefly evaluate the performance of J&J upon the profitability, liquidity and efficiency based on the above ratio analysis. (6 marks)
- c) Discuss the limitation of using ratio analysis in evaluating the financial performance of an organisation (5 marks)

**[TOTAL 25 MARKS]**

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### QUESTION 3

- a) At 31 December 2024, the balance on the cash account was £11,820 (DR), but the balance appearing on the bank statement was £15,000 (CR).

The reasons for the difference were as follows:

- I. Bank charges of £20
- II. A payment of £1,200 had been entered in the cash account as £2,100
- III. A cheque for £200 had been dishonoured
- IV. There were unrepresented cheques totalling £6,500
- V. Lodgements of £4,000 had not yet appeared on the bank statement

Calculate the correct balance on the cash account, and prepare a bank reconciliation statement

**(6 marks)**

- b) Discuss the role of the suspense accounts in double-entry book keeping.

**(5 marks)**

- c) IAS 16 Property Plant and Equipment defines depreciation as “the systematic allocation of the depreciable amount of an asset over its’ useful life” (IAS 16 para 6).

The following information relates to Enon carpet manufacturers:

	Machine 1	Machine 2
Cost	£68,000	£35,000
Purchase Date	1 July 20X1	1 September 20X1
Depreciation Method	10% straight line pro rata	20% reducing balance pro rata

**Required:**

Calculate the total depreciation charge for the years ended 31 December 20X1 and 20X2?

**(10 marks)**

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**Question 3 continued...**

d) Charles has provided the following information relating to four items of inventory:

- I. Cost \$100 and could be sold for \$120, less selling costs of \$10
- II. Cost \$150 and could be sold for \$160, less selling costs of \$20
- III. Cost \$135 and could be sold for \$148, less selling costs of \$15
- IV. Cost \$127 and could be sold for \$125, less selling costs of \$5

**Required:**

For each item of inventory, apply the valuation principles of IAS 2 Inventories determine its correct valuation for inclusion in the financial statements

**(4 marks)**

**[TOTAL 25 MARKS]**



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#### QUESTION 4

- a) Discuss the nature of accounting errors and identify five types of errors. Also, explain how journal entries can be used to correct these errors.

(10 marks)

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

I. Nicky runs a sole trader business selling computers. On 12 January 20X7, Nicky employed family member as an administrator for the business and took a computer from the store room for their use in the office.

What is the double entry for this transaction?

- |   |                       |                       |
|---|-----------------------|-----------------------|
| A | Dr Drawings           | Cr Cost of sales      |
| B | Dr Non-current assets | Cr Cost of sales      |
| C | Dr Cost of sales      | Cr Drawings           |
| D | Dr Cost of sales      | Cr non-current assets |

(1 mark)

II. Which of the following pairs of items would appear on the same side of the trial balance?

- A Drawings and accruals
- B Carriage outwards and prepayments
- C Carriage inwards and rental income
- D Opening inventory and purchase returns

(1 mark)

III. The double-entry system of bookkeeping normally results in which of the following balances on the ledger accounts?

- |   | Debit balances:                   | Credit balances:                  |
|---|-----------------------------------|-----------------------------------|
| A | Assets and revenues               | Liabilities, capital and expenses |
| B | Revenues, capital and liabilities | Assets and expenses               |
| C | Assets and expenses               | Liabilities, capital and revenues |
| D | Assets, expenses and capital      | Liabilities and revenues          |

(1 mark)

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**Question 4 continued...**

IV. Andrew prepared a draft statement of profit or loss for the business as follows:

	£	£
Sales		256,800
Cost of sales		
Opening inventory	13,400	
Purchases	145,000	
Closing inventory	(14,200)	
	<hr/>	(144,200)
Gross profit		<hr/> 112,600
Expenses		(76,000)
		<hr/>
Net profit		<hr/> 36,600

Andrew has not yet recorded the following items:

Carriage in of £2,300

Discounts received of £3,900

Carriage out of £1,950

After these amounts are recorded, what are the revised values for gross and net profit of Andrew's business?

	<b>Gross profit</b>	<b>Net profit</b>
	£   £	
A	108,350	36,250
B	108,350	28,450
C	114,200	28,450
D	114,200	36,250

(2 marks)

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**Question 4 continued...**

V. Freddy started the month with cash at bank of £1,780.

What was the balance carried forward after accounting for the following transactions in June?

- A Freddy withdrew £200 per week to cover living expenses.
- B A customer paid for goods with a list price of £600, less trade discount of 5%.
- C An amount of £400 was received from a credit customer.
- D Bankings of £1,200 from canteen vending machines.

**(2 marks)**

VI. Perry made the following accounting entries to account for the purchase of goods on credit from a supplier:

Debit Payables	£3,200
Credit Purchases	£3,200

What journal entry is required to account correctly for the purchase of the goods on credit from a supplier?

- A Debit Purchases £3,200, and Credit Receivables £3,200
- B Debit Purchases £3,200, and Credit Payables' £3,200
- C Debit Purchases £3,200, and Credit Suspense £3,200
- D Debit Purchases £6,400, and Credit Payables £6,400

**(2 marks)**

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**Question 4 continued...**

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

	<i>Small</i>	<i>Medium</i>	<i>Large</i>
	£ per unit	£ per unit	£ 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

(3 marks)

VIII. Wickes Co has a property rental business and received cash totalling £838,600 from tenants during the year ended 31 December 20X6.

Figures for rent in advance and in arrears at the beginning and end of the year were:

	31 December 20X5	31 December 20X6
	£	£
Rent received in advance	102,600	88,700
Rent in arrears (all subsequently received)	42,300	48,400

What amount should appear in Wickes Co's statement of profit or loss for the year ended 31 December 20X6 for rental income?

(2 marks)

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**Question 4 continued...**

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)

[TOTAL 25 MARKS]

**END OF QUESTIONS**