

UNIVERSITY OF BOLTON
SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES
RAS AL KHAIMAH CAMPUS
ACCOUNTANCY PATHWAY
SEMESTER 1 EXAMINATIONS 2009/2010
FINANCIAL ACCOUNTING FUNDAMENTALS
MODULE NO: ACC1007 RAK

Date: Thursday 21st January 2010

Time: 18:00 – 21:00

INSTRUCTIONS TO CANDIDATES:

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

Answer **ALL** questions.

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Answer ALL questions

Q1

The following trial balance was taken from the books of Thomas Hardy, a sole trader on 31st December 2009.

	DR (£)	CR (£)
Capital		750,000
Drawings	180,000	
Purchases	326,880	
Sales		684,600
Stock (1 st Jan 2009)	34,600	
Fixtures and fittings	564,600	
Provision for depreciation of fixtures		34,000
Delivery van	46,000	
Provision for depreciation of van		12,400
Rent	14,000	
Heat and light	19,280	
Wages	204,600	
Motor expenses	13,500	
Insurance	24,870	
Bank	3,460	
Cash	210	
Loan (Tennyson)		30,000
Bad debts	800	
Provision for bad debts		680
Debtors	124,600	
Creditors		45,840
Discount allowed	360	
Discount received		240
	1,557,760	1,557,760

**Question 1 continued over
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Question 1 continued

Hardy has also provided you with the following information:

- (i) He has valued the closing stock at £36,450
- (ii) He has agreed to pay his friend, Tennyson, 4% interest per year on the £30,000 he has borrowed. This has not yet been paid.
- (iii) He made a payment of £6,000 for rent in November 2009, which was for three months from 1st November 2006.
- (iv) Estimated cost of gas and electricity owing at the year end was £650
- (v) The wages for the last week in December, amounting to £3,460, had not yet been paid.
- (vi) He usually made a provision for bad debts of 1% of the outstanding debtors at the year-end.
- (vii) Depreciation is to be charged on fixtures and fittings at 12% on cost; and on the motor van at 25% using the reducing balance method.

Required:

- (a) Prepare the profit and loss account for the year ended 31st December 2009.
(15 marks)
- (b) Draw up a balance sheet as at 31st December 2009.
(15 marks)
- (c) Explain to Hardy why it is important to value the closing stock correctly.
(5 marks)

TOTAL 35 MARKS

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Q2

Hamilton and Buccleuch set up in partnership on January 1st 2009 running a sports shop in Bolton.

Hamilton put in £600,000 as capital, and Buccleuch provided £400,000.

As this was their first year in business, they agreed that they should be careful with the amount of drawings taken from the business, and decided that interest should be charged on any drawings made.

They drew up a partnership agreement containing the following:

Charges:

- Interest on drawings at 4% on a pro-rata monthly basis.

Entitlements:

- Interest on capital at 3% per year based on each partner's opening balance on their capital account.
- Hamilton to have a 'salary' of £16,000 per year, and Buccleuch to get £32,000 per year.
- Profits/losses to be shared in the ratio of the initial capital provided by each partner.
- Interest on any loans made by the partners to be 5% on a pro-rata monthly basis.

The partners were to keep separate capital and current accounts.

Net profit for the year to 31st December 2009 amounted to £156,600

During the year the partners had made drawings as below:

Hamilton - £64,000 on July 1st 2009, and £8,000 on December 31st 2009.

Buccleuch - £24,000 at the end of June 2009 and £20,000 at the end of September 2009.

On July 1st 2009, they needed some funds, and Hamilton made a loan to the partnership of £100,000.

Required:

- (a) Prepare the partnership appropriation account for the year. **(10 marks)**
- (b) Prepare the partners' capital and current account accounts using columnar format. **(10 marks)**
- (c) Discuss and assess the reasons why it is considered necessary for partners to draw up a partnership agreement. **(7 marks)**
- (d) Explain what a debit balance on a partner's current account would indicate. **(3 marks)**

TOTAL 30 MARKS

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Q3

You have been supplied with the following information which relates to the business of Nigel Gresley.

Extracts from the Trial Balance as at 31st December 2009

	DR £	CR £
Premises	250,000	
Depreciation on premises		5,000
Equipment	280,000	
Depreciation on equipment		140,000
Stock (1 st Jan 2009)	38,400	
Debtors	4,350	
Bank	800	
Creditors		8,275

The closing stock had been provisionally valued at £16,800 on the 31st December 2009.

A summary of the bank account showed that receipts from customers during the year, all of which had been banked, amounted to £436,400, and that total payments to suppliers was £280,000

At the start of the year (1st January 2009) the amount owed to the business by customers was £3,680, and the business owed its suppliers £6,245.

In November 2009, there was a fire in the shop which destroyed some of the stock. The business operates on a sales margin of 20%.

Required:

- (a) Calculate the capital of the business on 31st December 2009 **(5 marks)**
- (b) Calculate the value of sales and purchases for the year. **(10 marks)**
- (c) Make an assessment as to the value of the stock destroyed in the fire. **(5 marks)**

TOTAL 20 MARKS

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Q4

Wordsworth, a sole trader received a bank statement, for transactions for the month of December 2009, showing that the business was overdrawn at the bank by £340. This caused him some concern as, according to his records, there should have been £250 in the bank.

Required:

(a) Explain to Wordsworth why this might be the case, and why he should always reconcile his own bank record of bank transactions with the bank statements received from the bank.

(10 marks)

(b) Explain the procedure for drawing up a bank reconciliation statement.

(5 marks)

TOTAL 15 MARKS

END OF QUESTIONS