

UNIVERSITY OF BOLTON
RAS AL KHAIMAH CAMPUS
SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES
ACCOUNTANCY PATHWAY
SEMESTER I EXAMINATION 2010/2011
FINANCIAL ACCOUNTING FUNDAMENTALS
MODULE NO: ACC1007

Date: 21 January 2011

Time: 6.00pm – 9.00pm

INSTRUCTIONS TO CANDIDATES:

There are **FOUR** questions.

Answer **ALL** questions.

The recommended text book may be referred to in the examination.

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Q 1

The following trial balance was taken from the books of Edwin, a sole trader on 31 December 2010.

	£	£
Sales		420,000
Purchases	160,000	
Debtors	24,000	
Creditors		16,000
Stock (1 st January 2010)	12,000	
Bank	20,000	
Fixtures and fittings	220,000	
Depreciation- fixtures and fittings (1 st Jan 2010)		90,000
Wages and salaries	130,000	
Returns inwards and outwards	8,000	11,600
Discounts allowed and received	18,000	14,400
Rent	48,000	
Long-term loan		60,000
Carriage outwards	26,000	
Electricity	30,000	
General expenses	22,000	
Provision for bad debts (1 st Jan 2010)		6,000
Capital		<u>100,000</u>
	<u>718,000</u>	<u>718,000</u>

You have been provided with the following information:

- (i) The fixtures and fittings are depreciated using the straight line method. They are expected to have a life of 15 years and a residual value of £10,000.
- (ii) The closing stock was valued at £15,000.
- (iii) A bad debt of £4,200 is to be written off and the provision for bad debts is to be increased to £9,800.
- (iv) The balance for rent in the trial balance includes a rent payment of £36,000 for the year to 31 March 2011
- (v) A bill of £3,600 for electricity for the three months to 31st January 2011 has only just been received.
- (vi) Edwin made cash drawings during the year of £32,000. These have been included as wages and salaries in the trial balance above.
- (vii) During the year Edwin also took some stock for personal use which cost £3,400. This has not been dealt with in the above trial balance.
- (viii) The long-term loan was taken out on 1st January 2010 and is to be repaid in full at the end of ten years. Interest is charged at the annual rate of £8,000 and is paid annually in arrears on 1st January.

QUESTION CONTINUED ON THE NEXT PAGE

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QUESTION ONE CONTINUED

Required:

- (a) Prepare the Profit and Loss account for the year ended 31st December 2010. (12 marks)
- (b) Draw up a Balance Sheet as at 31st December 2010. (13 marks)
- (c) Explain to Edwin how you have treated the withdrawal of stock for personal use, and why you have done this. (5 marks)

Total 30 marks

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Q 2

The following information has been obtained from the records of Rachel Ltd. Control accounts are kept for the sales and purchase ledgers. The balances on these accounts at 31st November 2010 were:

	DR	CR
	£	£
Sales ledger	95,617	613
Purchase ledger	782	78,298

The following transactions took place during the month of December 2010:

	£
Purchases on credit	621,951
Credit sales	759,348
Cheques received from credit customers	703,195
Cheques paid to credit suppliers	612,116
Cash purchases	7,985
Cash sales	202,651
Returns inwards	3,549
Returns outwards	4,581
Discounts allowed	25,355
Discounts received	8,570
Bad debts written off	5,123
Provision for bad debts increased by	458

On 31 December, there were credit balances on the sales ledger totalling £161 and debit balances on the purchases ledger totalling £329.

Required:

- (a) Draw up a Sales Ledger Control Account and Purchase Ledger Control Account from the above information. (18 marks)
- (b) Discuss the reasons for keeping control accounts, (7 marks)

Total 25 marks

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Q 3

The ASB Statement of Principles states that in deciding which information to include in financial statements, when to include it and how to present it, the aim is to ensure that financial statements provide information that is useful.

Required :

- (a)** Discuss the qualitative characteristics relating to content and presentation of financial information and evaluate their inter-relationship.

(15 marks)

- (b)** A friend of yours, who is currently running a business as a sole trader, is considering taking on a partner in the business. She is not sure, however, how this would work, particularly if the partner could not put in as much capital as she (your friend) has invested, and if the profits of the business had to be shared equally.

Advise your friend regarding the options open to her if she decides to go ahead with the partnership.

(15 marks)

Total 30 marks

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Q 4

The ledger account for the bank account for Shropshire showed the following transactions for the month of January 2011.

DR (£)		CR (£)	
1 Balance b/d	1,500	10 Cheque No. 100	6,050
8 Takings banked	6,512	10 Cheque No. 101	2,130
15 Takings banked	17,219	11 Cheque No. 102	3,879
23 Takings banked	9,683	13 Cheque No. 103	1,050
30 Takings banked	10,477	15 Cheque No. 105	7,997
		19 Cheque No. 106	6,000
		Balance c/d	3,253

At the end of January, Shropshire received the following bank statement

	Detail	DR £	CR £	Balance £
1 January	Balance b/f			3,700
9 January	Counter credit		6,512	10,212
10 January	Standing order	1,710		8,502
16 January	Counter credit		17,219	25,721
16 January	Cheque 100	6,050		19,671
16 January	Cheque 101	2,130		17,541
16 January	Cheque 99	2,200		15,341
16 January	Direct credit		1,100	16,441
16 January	Returned cheque	150		16,291
16 January	Cheque 102	3,879		12,412
24 January	Counter credit		9,683	22,095
24 January	Cheque 103	1,050		21,045
24 January	Cheque 105	7,997		13,048
31 January	Bank charges	250		12,798

Cheque number 99 was entered in Shropshire's bank account in the firm's books in February 2010.

Required:

- (a) Bring the bank account of Shropshire up to date after checking with entries on the bank statement. (7 marks)
- (b) Draw up a bank reconciliation statement to reconcile any differences between the closing bank statement balance and the closing balance in the bank account in the books of Shropshire. (8 marks)

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Total 15 marks

END OF QUESTIONS