

**UNIVERSITY OF BOLTON RAS AL KHAIMAH**

**BUSINESS AND CREATIVE TECHNOLOGIES**

**ACCOUNTANCY PATHWAY**

**SEMESTER 2 EXAMINATIONS 2010/2011**

**FINANCIAL ACCOUNTING FUNDAMENTALS**

**MODULE NO: ACC1007RAK**

Date: 3<sup>rd</sup> June 2011

Time: 5:00pm – 8:00pm

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**INSTRUCTIONS TO CANDIDATES:**

There are FOUR questions on this paper.

Answer ALL questions.

All questions carry equal marks.

No additional materials are permitted in this exam. A calculator may be used.

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**Q1.**

The following trial balance was taken from the books of Soles, a sole trader on 31<sup>st</sup> December 2010.

	DR (£)	CR (£)
Capital		350,000
Drawings	46,900	
Purchases	486,300	
Sales		765,280
Stock (1 <sup>st</sup> Jan 2010)	34,865	
Fixtures and fittings	242,680	
Provision for depreciation of fixtures		23,500
Motor vehicles	28,000	
Provision for depreciation of vehicles		6,800
Rent	46,800	
Heat and light	25,400	
Wages	60,500	
General expenses	24,550	
Insurance	5,545	
Bank	21,800	
Cash	580	
Loan (Brenda)		40,000
Bad debts	1,560	
Provision for bad debts		2,480
Debtors	286,800	
Creditors		124,600
Discount allowed	1,240	
Discount received		860
	<b>1,313,520</b>	<b>1,313,520</b>

Soles has also provided you with the following information:

- (i) He has valued the closing stock at £25,430
- (ii) He has agreed to pay his friend, Brenda, 6% interest per year on the £40,000 he has borrowed. This has not yet been paid.
- (iii) Rent had been prepaid by £4,500.
- (iv) Estimated cost of electricity owing at the year end was £1,250
- (v) The wages for the last week in December, amounting to £3,500, had not yet been paid.
- (vi) A provision for bad debts is to be made for 0.5% of the outstanding debtors at the year-end.
- (vii) Depreciation is to be charged on fixtures and fittings at 10% on cost; and on the motor vehicles at 20% using the reducing balance method.

QUESTION ONE CONTINUES ON THE NEXT PAGE

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QUESTION ONE CONTINUED

**Required:**

- (a) Prepare the profit and loss account for the year ended 31<sup>st</sup> December 2010. (12 marks)
- (b) Prepare a balance sheet as at 31<sup>st</sup> December 2010. (13 marks)

**Total 25 marks**

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**Q2**

Bonnie and Clyde set up in partnership on January 1<sup>st</sup> 2010 selling antiques from a shop in Belmont.

Bonnie put in £300,000 as capital, and Clyde provided £500,000.

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 5% 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.
- Bonnie to have a 'salary' of £35,000 per year, and Clyde to get £24,000 per year.
- Profits/losses to be shared equally.
- Interest on any loans made by the partners to be 8% on a pro-rata monthly basis.

The partners were to keep separate capital and current accounts.

Net profit for the year to 31<sup>st</sup> December 2010 amounted to £146,000

During the year the partners had made drawings as below:

Bonnie - £36,000 on July 1<sup>st</sup> 2010, and £16,000 on December 31<sup>st</sup> 2010.

Clyde - £12,000 at the end of June 2010 and £20,000 at the end of September 2010.

On July 1<sup>st</sup> 2010, they needed some funds to purchase some rare antiques at an auction, and Bonnie made a loan to the partnership of £30,000.

**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) Explain what would have happened to the profit if the partners had not drawn up an agreement. (5 marks)
- Total 25 marks**

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**Q3**

You have been presented with a trial balance that does not 'balance'.  
On checking the trial balance you find that the totals are as below:

	DR	CR
Total	£100,000	£95,000

On checking the books you find the following errors:

- (a) The purchases account had been added £1,000 too much.
- (b) A bill for electricity, £235, had been paid by cheque but had not been entered in any accounts.
- (c) The credit balance brought down on a creditors account (M Penny), had been calculated incorrectly. It was £300 too low.
- (d) A cheque for £1,400 received from a customer (J Bond) had been correctly entered in the bank account, but had not been entered in Bond's account.
- (e) A cheque paid to a supplier (Q) for £100 had been entered correctly in the bank account but had been incorrectly debited to the account of Jaws.
- (f) An office machine costing £3,000 and paid for by cheque had only been entered in the office machinery account.
- (g) Some goods returned by a customer (S Baird) for £700 had only been entered in S Torrance's account.
- (h) Some goods returned to a supplier (S Clarke) for £240 had been entered on the wrong side in each of the relevant accounts.

Before finding any of the above errors, the profit had been calculated as £45,800

Required:

- (a) Open a suspense account to balance the trial balance. (1 mark)
- (b) Show how you would correct each of the above errors. (16 marks)
- (c) Balance the suspense account. (6 marks)
- (d) Calculate the revised profit after the errors have been corrected. (2 marks)

**Total 25 marks**

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**Q4**

On 30 June 2010, Luke's cash book showed the following entries:

## Cash Book

Dr	£	Cr	£
1 <sup>st</sup> Balance b/d	2000	2 <sup>nd</sup> Purchases	400
4 <sup>th</sup> Venus	1000	6 <sup>th</sup> Purchases	200
11 <sup>th</sup> Tornado	750	10 <sup>th</sup> Wages	500
28 <sup>th</sup> Mercury	600	30 <sup>th</sup> Gas DD	200
		30 <sup>th</sup> Purchases	350
		30 <sup>th</sup> Balance c/d	2,700
	<b>4,350</b>		<b>4,350</b>

At the end of June, Luke received the following bank statement

	Detail	DR £	CR £	Balance £
1 June	Balance b/f			2,000 CR
8 June	Cheque 01234	200		1,800 CR
10 June	Cash	500		1,300 CR
10 June	ABC Ins DD	300		1,000 CR
13 June	Credit		1,750	2,750 CR
15 June	Cheque 01233	400		2,350 CR
25 June	Counter credit		2,150	4,500 CR
30 June	DD Gas	200		4,300 CR
30 June	Bank charges	10		4,290 CR

**Required:**

- Explain the purpose of carrying out a bank reconciliation exercise.  
(10 marks)
- Update the cash book.  
(8 marks)
- Draw up a bank reconciliation statement to reconcile any differences between the cash book and the bank statement.  
(7 marks)

**Total 25 marks**

**END OF QUESTIONS**