

SEMESTER 1 EXAMINATIONS 2015-16

FINANCIAL ACCOUNTING 1

DURATION: 120 MINUTES (2 HOURS)

This paper contains **FIVE** questions.

Answer **THREE** questions in total.

Answer **ALL** questions in **Section A**, **ONE** question in **Section B** and **ONE** question in **Section C**.

An outline marking scheme is shown in brackets to the right of each question.

All calculations should be supported by neat workings.

Only University approved calculators may be used.

A foreign language word to word translation dictionary (paper version) is permitted provided it contains no notes, additions or annotations.

SECTION A

You must answer question A1 from this section.

- A1.** Ninetowns Fabrication & Materials supplies materials and components to the offshore energy industry. The owner has developed the company from an initial capital of £5,000,000.
- (a) The following information relates to the year ending 31.12.15:
- (i) Sales of £75,000,000 were recorded. There were no sales returns during the year.
 - (ii) Inventory at 31.12.15 was recorded at a value of £6,000,000, with goods purchased to the value of £52,500,000 during the year. Ninetowns had £8,500,000 worth of parts and materials in their warehouse at 1.1.15.
 - (iii) The assets of the firm include plant and equipment worth £7,500,000 estimated to last 5 years. This is depreciated using the straight line method and were acquired in 2013 with no charge for depreciation in the year of purchase. It is estimated that the asset will have a scrap value of £500,000.
 - (iv) Creditors were £1,200,000 for the year.
 - (v) Payment for IT support and telecommunication is £300,000.
 - (vi) A cash balance of £12,000 is held in the office.
 - (vii) Rental for warehouse, distribution and workshop was £800,000.
 - (viii) A customer went bankrupt owing £1,500,000 on 11.3.15. £500,000 has been paid by the customer after this date.

- (ix) Debtors were £15,000,000 on the 20.11.15 and no further credit sales were expected.
- (x) The business has accumulated £4,212,000 in retained profits.
- (xi) Based on past experience, 5% of debtors may not be able to pay.

Required:

Prepare a Profit & Loss for the year ending 31.12.15 together with a Balance Sheet as at 31.12.15. Show clearly all workings.

[25 marks]

- (b) After examining the financial statements prepared above the accountant realises that the figure for communications is incorrect. £130,000 of the amount relates to the first quarter of 2017. What difference would this make to the Profit and Loss and Balance Sheet?
[6 marks]
- (c) If the Finance Director wants to expand the production facilities at Ninetowns, how would they go about financing the expansion? You should state clearly the advantages and disadvantages of each method of financing and state how this would be reported on the financial statements.
[9 marks]

TURN OVER

SECTION B

You must answer ONE question from this section.

B1.

(a) Define the following ratios that might be used to examine the performance of a public company. You should include the formula of the ratio itself and what it is used to measure.

- (i) R.O.C.E.
- (ii) Debtor (Trade Receivables) turnover.
- (iii) Creditor (Trade Payables) turnover.
- (iv) Current Ratio.
- (v) Gearing Ratio.
- (vi) Acid Test Ratio.
- (vii) Earnings per Share.

[14 marks]

(b) What additional information is needed to contextualise the ratios cited in your answer to (a) above?

[8 marks]

(c) When examining a financial report, what might the footnotes relating to depreciation tell a potential investor?

[8 marks]

B2.

- (a) Mr Mack has established a bookshop with £12,000 of his own money. The following transactions are then recorded:

	£
(i) Raise loan from the bank	3,000
(ii) Paid rent for shop	2,000
(iii) Purchased books for stock on credit	1,200
(iv) Sold books on credit	200
(v) Sold books for cash	300
(vi) Paid monies owed to creditors	1,200
(vii) Received payment from debtors	200
(viii) Paid interest on loan	300
(ix) General expenses paid in cash	180
(x) Bought bike for personal use	580

Required:

Draw up the T accounts for each of these transactions.

[14 marks]

- (b) Draw up the trial balance from the balance of each T account.

[5 marks]

- (c) Give two reasons why the trial balance might not balance. If for any reason the trial balance still does not balance, what should the accountant do? HINT: within double entry system.

[4 marks]

- (d) An asset was purchased for £75,000 and has accumulated depreciation of £45,000. It is sold on credit for £35,000. Show the T accounts for the sale of the asset.

[7 marks]

TURN OVER

SECTION C

You must answer ONE question from this section.

- C1.** Explain how the concept of the business model might be included within the narrative of an annual report. You should reference at least three accounting concepts/conventions in your answer.

[30 marks]

C2.

- (a) Define three accounting conventions/concepts and explain how they are used to inform accounting calculations and the creation of financial reports. You should provide examples to illustrate how each of these conventions operates.

[15 marks]

- (b) Are accounting transactions always recorded using historic costs? What alternatives are there to historic cost and why are they not used?

[15 marks]

END OF PAPER