

Institute of Certified Public Accountants  
F2.1 Financial Accounting  
Model Answers

**SECTION A**

**1.**

(a)

- ✓ Compiling financial statements (such as the balance sheet, income statement, and statement of profit and loss).
- ✓ Performing financial calculations.
- ✓ Reporting on financial performance.
- ✓ Analysing financial data to provide organizations with information that will assist in future planning and decision-making.
- ✓ Assisting with the preparation of budgets.
- ✓ Ensuring compliance with relevant financial laws and regulations.
- ✓ Developing and implementing financial record keeping systems.
- ✓ Supervising bookkeepers and accounting assistants.
- ✓ Giving financial advice.

**(5 marks)**

(b)

- ✓ Suppliers and trade creditors are interested in information that will help them determine whether the amounts owing to them will be paid on time.
- ✓ Lenders – want information that will enable them to decide whether their loans will be paid when due, and whether or not to issue new loans to the entity.
- ✓ Investors – who supply risk capital in the form of funding, this group are concerned with the risk inherent in, and the return provided by their investments
- ✓ Customers will be interested in the continuance of the entity, especially if they depend on it themselves.
- ✓ Employees – wish to know about the stability and profitability of their employers. This may give them confidence about their jobs and could be used to discuss salary and conditions of employment.
- ✓ The Government and government agencies are interested in the allocation of resources and the activities of the entities in general.
- ✓ The General public may be affected by an entity in a number of different ways, especially how an entity may contribute to the local economy.

**(5 marks)**

(c ) The Trading Profit & Loss Account for the year ended 30<sup>th</sup> June 2018

	€	€	€
Sales			168,432
Sales Returns			(975)
			167,457
<b>LESS -Cost of Sales</b>			
Opening Stock		9,427	
Purchases	105,240		
Purchase Returns	(1,237)	104,003	
		113,430	
Closing Stock		(11,517)	(101,913)
Gross Profit			65,544
Discount Received			643
Change in Provision <b>W1</b>			54
			66,241
<b>Less Expenses</b>			
Discount Allowed		127	
Wages and Salaries		30,841	
Motor Vehicles expenses (1021 +55AC)		1,076	
Rent and Rates (8,796-275pp)		8,521	
Heat and Light		1,840	
Telephone		355	
General Expenses		1,752	
Bad debts written off		85	
<b>Provision for Depreciation</b>			
Fixtures and Fittings <b>W2</b>		600	
Motor Vehicles <b>W3</b>		1,125	(46,322)
<b>Net Profit</b>			<b>19,919</b>

**Working 1 (W1)**

$$3,840 \times 2.5\% = 96$$

Current provision = 150

$$150 - 96 = 54 \text{ decrease in provision to be added to net profit}$$

**Working 2 (W2)**

$$W2 \text{ £}6,000 \times 10\% = \text{£}600 \text{ charge to PL for Fixtures and Fittings} = \text{£}600$$

W3 Motor vehicles at cost – provision for depreciation x 25%

$$\text{£}8,000 - 3,500 = 4,500 \times 25\% = 1,125$$

**Balance Sheet as at 30th June 2018**

	€	€	€	€
<b>Fixed Assets</b>				
Vehicle		8,000	4,625	3,375
Fittings		6,000	2,600	3,400
		<u>14,000</u>	<u>(7,225)</u>	<u>6,775</u>

<b>Current Assets</b>				
Stock		11,517		
Debtors	3,840			
Less Provision (W1)	96	3,744		
Prepayment		275		
Cash		155		
Bank		21,419	37,110	
<b>Current Liabilities</b>				
Creditors		5,294		
Accruals		55		
VAT		1,492	(6,841)	
Net Current working assets (Working Capital)				30,269
<b>Net worth</b>				<b>37,044</b>
<b>Financed By</b>				
Capital				36,175
Net Profit			19,919	
Less- Drawings			(19,050)	869
				<b>37044</b>

(20 marks)

Total: 40 Marks

## **SECTION B**

2.

a)

### **Cash Book**

ii) Undercast	300	iv) Dishonored	210
iii) Error in C/B	99	viii) Interest	228
v) Credited Twice	3,000	ix) Not recorded	2,077
vi) Dividend	90		

### **Bank Statement**

i) Balance	2,118	
vii) Un-presented	1,800	
x) Not encashed	10,500	

(14 Marks)

<b>Amber Trading Limited</b>		
<b>Bank Reconciliation Statement as at 31/05/2018 - (€)</b>		
i.) Balance as per Bank Statement (Dr)		2,118
<b>Add</b>		
vii) Un-presented	1,800	
x) Not Encashed	10,500	
ii.) Undercast	300	
iii) Error in C/B	99	
v.) Credited Twice	3,000	
vi.) Dividend	<u>90</u>	<u>15,789</u>
		<b>17,907</b>
<b>Less:</b>		
iv.) Dishonored	210	
viii) Interest	228	
ix) Not recorded	2,077	<b>(2,515)</b>
Balance as per Cash Book (Cr)		<b>15,392</b>

**b)**

- ✓ Error Detection. -Bank reconciliation helps you spot accounting errors common to any business. .
- ✓ Fee and Interest Tracking.
- ✓ Fraud Detection.
- ✓ Receivables Tracking.
- ✓ Transaction Status Updates.

**( 4 marks)**

**c)**

A monthly reconciliation helps to catch and identify any unusual transactions that might be caused by fraud or accounting errors, especially if your business uses more than one bank account.

**( 2 marks)**

**Total: 20 Marks**

**3.**

**a)**

#### **Suspense Account**

	<b>(€)</b>		<b>(€)</b>
Difference	56,717	Sales returns	8,980
Discount received	919	Purchases returns	8,980

		Revenue (customer cash discounts)	836
	---	Insurance	580
		Telephone (trial balance)	<u>38,260</u>
	<b>57,636</b>		<b>57,636</b>

### Journal Entries

	(€)	(€)
1 Sales returns account	8,980	
Suspense account		8,980
Purchases	8,980	
Suspense account		8,980
2 Plant account	9,600	
Plant repairs		9,600
Depreciation	960	
Plant depreciation		960
3 Revenue (customer cash discounts)	836	
Suspense account		836
Suspense account	919	
Discount received		919
4 Insurance account	580	
Suspense account		580
5 Trial balance	38,260	
Suspense account		38,260
6 Sales account	4,800	
Motor vehicles		4,800
Motor vehicles	12,000	
Motor vehicles		12,000
Motor vehicles	8,000	
Motor vehicles		8,000
Motor vehicles	800	
Statement of profit or loss		800

**(14 marks)**

**b)**

Any four from:

- i) Error of commission- When a correct amount is entered in books, but in the wrong person's account
- ii) Error of principle- Where a transaction is entered in the wrong type of account.
- iii) Error of original entry-Where an original amount is incorrect and is then entered in the double entry.
- iv) Error of omission-Where transactions are not recorded in the books at all.
- v) Compensating errors- Errors which cancel each other out.

**( 6**

**Marks)**

**Total: 20 Marks**

i.	Gross Profit Margin	$255,000 \times 100 / 600,000$	<b>42.5%</b>
ii.	Net Profit Margin	$65,000 \times 100 / 600,000$	<b>10.83%</b>
iii.	Return on Capital	$65,000 / (300,000 + 175,000 + 40,000)$	<b>12.62%</b>
iv.	Current Ratio	$148,000 + 28,000 : 85,000 + 30,000$	<b>1.53 :1</b>
v.	Debtors Days	$28,000 \times 365 / 600,000$	<b>17 Days</b>
vi.	Gearing Ratio	$40,000 \times 100 / (300,000 + 175,000 + 40,000)$	<b>7.77%</b>

**4) (a)**

<b>2017</b>	<b>(€)</b>	<b>(€)</b>
Sales		600,000
Less Cost of Sales		
Opening stock	268,000	
Purchases	<u>225,000</u>	
	493,000	
Less Closing Stock	<u>148,000</u>	345,000
Gross Profit		255,000
Less-Operating Expenses		<u>190,000</u>
Net Profit (Operating Profit)		<u>65,000</u>

<b>2018</b>	<b>(€)</b>	<b>(€)</b>
Sales		650,000
Less Cost of Sales		
Opening stock	148,000	
Purchases	<u>268,000</u>	
	416,000	
Less Closing Stock	<u>126,000</u>	290,000
Gross Profit		360,000
Less-Operating Expenses		<u>250,000</u>
Net Profit (Operating Profit)		<u>110,000</u>

**(15marks)**

**b)**

Both turnover and profits have been increased showing that the company is clearly expanding.

- ✓ Return on capital employed -It is clear from the figures that they have managed the assets of the business efficiently on behalf of the shareholders as it has shown a marked increase from 12.62% to 18.03%
- ✓ Gross profit - Again Patrick Taylor has performed well as it has increased from 42.5% to 55.38%. Net profit too has increased from 10.83% to 16.92% displaying sound performance
- ✓ The current ratio measures current assets against current liabilities. As seen there has been an improvement shown by the change in the ratio from 1.53:1 to 2.10:1

On the basis of the ratios calculated, it is clear that Patrick Taylor is profitable, efficient and can pay its short-term liabilities quite easily. Despite a small increase in the gearing ratio there is no problem with its longer term financial commitments.

**(5marks)**

**Total: 20 Marks**

**5.**

**a)**

- i. Prepayments are items of expense that relate to future periods but which have already been paid for and are shown in expenses of the current period. They must be excluded from this year's expenses as they relate to a future period. Examples of Prepayments could include Rent Prepaid, Phone Credit Prepaid etc.

I. Gross Profit Margin	$360,000 \times 100 / 650,000$	<b>55.38%</b>
II. Net Profit Margin	$110,000 \times 100 / 650,000$	<b>16.92%</b>
III. Return on Capital	$110,000 \times 100 / (300,000 + 240,000 + 70,000)$	<b>18.03%</b>
IV. Current Ratio	$126,000 + 48,000 + 15,000 : 90,000$	<b>2.1 :1</b>
V. Debtors Days	$48,000 \times 365 / 650,000$	<b>27 Days</b>
VI. Gearing Ratio	$70,000 \times 100 / (300,000 + 240,000 + 70,000)$	<b>11.48%</b>

- ii. Accruals are expenses which have not been included in expenses in this period as they have not been paid for in this period but which must be included as they have been

incurred in this period as per the accruals concept. Examples of Accruals could include Wages owing at the end of a period, Light & Heat Due etc.

- iii. Capital expenditure are funds that a company uses to acquire or upgrade physical assets such as property, industrial buildings or equipment to allow the company produce products or provide services. Examples of Capital Expenditure include money spent on property, plant, equipment, vehicles, trucks, fixtures and fittings, office equipment etc.
- iv. Equity is the residual interest in the assets of an entity after deducting all its liabilities. Examples of Equity include ordinary share capital, share premium, retained earnings and revaluation surplus.

**(6 marks)**

b)

Working - Closing Inventory

Total Inventories at Cost per Inventory Count €347,841

Accidentally Destroyed Inventory (€4,640)

Damaged Inventories – Cost €2,980

NRV - Selling Price less costs to sell (2,410 - 680) - (€ 1,730)

Inventory Write Down (€ 1,250)

Value of Closing Inventories **€341,951**

**(4 marks)**

c)

<b>Number of Members</b>	
Partnership firm must have Minimum of 2 partners and maximum of 20 partners.	A Company must have Minimum of 2 and maximum of 200 in the case of private company. Minimum 7 and maximum is unlimited number of members in case of public company
<b>Created by</b>	
Partnership Firm is Created by Contract between two or more people.	Company Firm is Created by Law i.e created by incorporation of a company under company law.
<b>Regulation Authority</b>	
It is regulated by the Registrar of Firms	It is regulated by the Registrar of Companies



which comes under State Government.	which comes under Central Government.
<b>Registration procedure</b>	
The registration of a Partnership firm is Not Mandatory.	The registration of Company with Registrar of Companies is Mandatory.
<b>Documents Required</b>	
Partnership Deed(Agreement Document) is the mandatory document for creation of a Partnership Firm.	Memorandum of Association(MoA) and Articles of Association(AoA) are the main documents to the incorporation of the company.
<b>Separate Legal Entity</b>	
Partnership firm is not a separate legal entity from partners. The Partners of the firm are collectively referred as a Partnership firm.	A company is a separate legal entity, It is a separate entity from its members, directors, promoters, etc.
<b>Liability of Members</b>	
The partners have Unlimited Liability in all the matters relating to Partnership Firm.	The Shareholders and promoters have Limited liability to Capital of the company.
<b>Accounts and Audit</b>	
Partnership Firm has to maintain accounts as per the conditions stated in partnership deed.	A Company should maintain accounts and auditing of accounts by certified Chartered Accountant are Compulsory.
<b>Common Seal</b>	
A Common Seal is not required for Partnership Firm.	A Common Seal in the form of a stamp is required for the company for legal and functional purposes.
<b>Management</b>	
Management of the activities of a Partnership Firm is usually done by the working partners.	Management of the activities of a Company is done by Board of Directors.
<b>Change of Name</b>	
The name of the Partnership Firm can be changed easily by having a discussion between partners.	The name of the company cannot be changed easily and a prior approval of Central Government is required to change the name.

**(10 marks)**

**Total: 20 Marks**