

Examination Question and Answer Book

CIMA

Write your full examination number, your contact ID and your name on a double-sided card, which must be attached to this booklet here.

Foundation Level

Financial Accounting Fundamentals

1

FAFN

19 November 2003
Wednesday morning

INSTRUCTIONS TO CANDIDATES

Read this page before you look at the questions

THIS QUESTION PAPER BOOKLET IS ALSO YOUR ANSWER BOOKLET.

Sufficient space has been provided for you to write your answers, and also for workings where questions require them. For section B questions, you must write your answers in the shaded space provided. Please note that you will NOT receive marks for your workings. Do not exceed the stated number of words. Do NOT remove any sheets from this booklet: cross through neatly any work that is not to be marked. Avoid the use of correction fluid.

You are allowed three hours to answer this question paper. All questions are compulsory.

Answer the ONE question in section A (this has 25 sub-questions)

Answer the THREE questions in section B

You are advised to spend 10 minutes reading through the paper before starting to answer the questions.

You should spend no more than 85 minutes in total answering the ONE question in section A, which has 25 sub-questions.

You should spend no more than 85 minutes in total answering the THREE questions in section B.

Hand this entire booklet to the invigilators at the end of the examination. You are NOT permitted to leave the examination hall with this booklet.

Do NOT write your name or your contact ID anywhere on this booklet.

SECTION A — 50 MARKS

ANSWER ALL TWENTY-FIVE SUB-QUESTIONS – 2 MARKS EACH

Each of the sub-questions numbered from **1.1** to **1.25** inclusive, given below, has only **ONE** correct answer.

REQUIRED:

Place a circle "O" around the letter **A, B, C** or **D** that gives the correct answer to each sub-question.

If you wish to change your mind about an answer, block out your first answer completely and then circle another letter. You will NOT receive marks if more than one letter is circled.

Please note that you will NOT receive marks for any workings to these sub-questions. Sufficient space has been provided for you to do your workings where these sub-questions require them.

Question One

Do not write in these columns below

1.1 A business is normally said to have earned revenue when

- A** cash has been received.
- B** a customer is legally obliged to pay for goods delivered or services rendered.
- C** an order has been placed.
- D** goods have been manufactured and placed in stock.

For use by the first marker	For use by the second marker

Do not write in these columns below

1.2 The following information relates to C Limited at 30 June 2003:

	\$
Balance per cash book – credit balance	4,300
Unpresented cheques	1,500
Bank charges not entered in the cash book	300
Receipts not yet credited by the bank	2,600
Dishonoured cheques not yet recorded in the cash book	500

For use by the first marker	For use by the second marker

What would be the balance shown on the bank statement at 30 June 2003?

- A** Overdraft \$6,200
- B** Overdraft \$5,100
- C** Overdraft \$4,000
- D** Favourable \$2,400

1.3 The following information relates to NBV Limited for the year ended 31 July 2003.

	\$000
Direct materials	160
Direct labour	200
Prime cost	360
Carriage outwards	80
Depreciation of delivery vehicles	30
Factory indirect overheads	450
Increase in work-in-progress stock	75
Decrease in stock of finished goods	55

For use by the first marker	For use by the second marker

What should be the factory cost of goods completed for the year ended 31 July 2003?

- A** \$735,000
- B** \$845,000
- C** \$885,000
- D** \$1,095,000

Do not write in these columns below

- 1.4** Which of the following tests carried out by an external auditor is a compliance test?
- A** Confirming authorisation of a reconciliation of the sales ledger control account.
 - B** Checking unrepresented cheques in a bank reconciliation.
 - C** Checking a purchase invoice with the purchase day book.
 - D** Inspecting physical existence of fixed assets.

For use by the first marker	For use by the second marker

1.5 The following information relates to CFS plc:

<i>Machinery</i>	<i>\$000</i>
Cost at 1 January 2002	80
Additions	20
Disposal	<u>(10)</u>
Cost at 31 December 2002	<u>90</u>
Provision for depreciation at 1 January 2002	15
Depreciation charge	8
Disposal	<u>(6)</u>
Provision for depreciation at 31 December 2002	<u>17</u>

The proceeds on disposal of the machine were \$1,000.

CFS plc is preparing the cash flow statement for the year ended 31 December 2002. In relation to the items above, what should be the net adjustment to operating profit in order to determine the net cash flow from operating activities?

- A** Deduct \$11,000
- B** Add back \$3,000
- C** Add back \$5,000
- D** Add back \$11,000

For use by the first marker	For use by the second marker

Do not write in these columns below

1.6 The accountant at S Limited is preparing quarterly accounts for Quarter 3. In Quarter 2, he had accrued \$1,600 for gas and this balance was carried forward to Quarter 3. In Quarter 3, a gas bill of \$2,700 was paid. The accountant has accrued \$2,400 for gas in Quarter 3.

What should be the charge for gas in the profit and loss account for Quarter 3?

- A** \$1,900
- B** \$2,400
- C** \$2,700
- D** \$3,500

For use by the first marker	For use by the second marker

1.7 D plc has a policy that all items of equipment which cost less than \$1,000 are charged to an expense account, rather than a fixed asset account. This is an example of the application of the concept of

- A** going concern.
- B** materiality.
- C** money measurement.
- D** prudence.

For use by the first marker	For use by the second marker

1.8 Internal auditors report to

- A** the management.
- B** the shareholders.
- C** the external auditors.
- D** the government.

For use by the first marker	For use by the second marker

Do not write in these columns below

1.9 A Limited is preparing financial statements for the year ended 30 June 2003. Rent is payable quarterly in advance on 1 February, 1 May, 1 August and 1 November. The annual charge for rent was \$1,800 and \$2,400 for the years ended 31 January 2003 and 2004 respectively.

Which of the following ledger entries should be made in A Limited's accounts?

A	Rent expense	\$2,000	Prepayment	\$400
B	Rent expense	\$2,050	Prepayment	\$200
C	Rent expense	\$2,050	Accrual	\$200
D	Rent expense	\$2,100	Prepayment/accrual	Nil

For use by the first marker	For use by the second marker

1.10 T Limited purchased a machine costing \$14,000 on 1 August 1999. The company estimated that the asset had a useful life of 4 years and an expected residual value of \$2,000. The company uses the straight-line method of depreciation. The company's financial year end is 30 November. It is the company's policy to charge a full year's depreciation in the year of purchase and none in the year of disposal. On 1 November 2002, the asset was sold for \$4,500.

What should be the profit or loss on disposal in the year ended 30 November 2002?

- A** Loss \$500
- B** Loss \$3,500
- C** Loss \$9,500
- D** Profit \$500

For use by the first marker	For use by the second marker

Do not write in these columns below

1.11 The following information is an extract from the balance sheets of DCF plc:

	31 August 2003	31 August 2002	
	\$000	\$000	
Stock	20	14	
Trade debtors	16	18	
Bank	<u>12</u>	<u>10</u>	
	48	42	
Trade creditors	(14)	(17)	
	<u>34</u>	<u>25</u>	

For use by the first marker	For use by the second marker

DCF plc is preparing the cash flow statement for the year ended 31 August 2003. In relation to the items above, what should be the net adjustment to operating profit in order to determine the net cash flow from operating activities?

- A** Deduct \$1,000
- B** Deduct \$2,000
- C** Deduct \$7,000
- D** Add back \$1,000

1.12 Which of the following entries would NOT affect the agreement of the totals in the trial balance?

- (i) An invoice for \$300 for rent has been omitted from the ledgers.
- (ii) A cash sale has been recorded as debit cash sales, credit cash.
- (iii) An invoice for vehicle expenses has been charged to the vehicle fixed asset account.
- (iv) A credit note for \$500 for goods returned by a customer had been recorded in the correct ledgers, but as \$5,000.

- A** (i) only
- B** (i) and (ii) only
- C** (i), (ii) and (iii) only
- D** All of them.

For use by the first marker	For use by the second marker

Do not write in these columns below

1.13 Which ONE of the following is NOT an intangible fixed asset?

- A** Goodwill
- B** Trademark
- C** Investment
- D** Patent

For use by the first marker	For use by the second marker

1.14 E Ltd bought computer equipment on 1 January 2000 for \$24,000 and estimated that it would have a useful life of five years and a residual value of \$2,000. E Ltd uses the straight-line method of depreciation. On 31 December 2001, it now considers that the remaining life is only two years and that the residual value will be nil.

What should be the annual depreciation charge for the years ended 31 December 2002 and 2003?

- A** \$4,800
- B** \$5,500
- C** \$6,600
- D** \$7,600

For use by the first marker	For use by the second marker

1.15 A company has a quick (acid test) ratio of 2 : 1. Current assets include stock of \$10,000 and debtors of \$6,000. Current liabilities are \$4,000.

What is the bank balance?

- A** Credit \$4,000
- B** Credit \$2,000
- C** Debit \$2,000
- D** Debit \$4,000

For use by the first marker	For use by the second marker

Do not write in these columns below

1.16 Which of the following does NOT prevent fraud and errors?

- A** Authorisation procedures
- B** Organisation of staff
- C** Suspense accounts
- D** Reconciliations

For use by the first marker	For use by the second marker

1.17 The BMX cycling club started in January 2001. The following fees were received in the years ended 31 December 2001 and 2002. There were no fees received in advance, or fees in arrears, at either year end.

	2001	2002
	\$	\$
Joining fees	8,000	10,000
Annual fees	5,000	7,000
Life membership fees	<u>4,000</u>	<u>6,000</u>
	<u>17,000</u>	<u>23,000</u>

Joining fees are recognised over a period of 4 years and life membership fees are recognised over 10 years.

What should be the total amount of fees recognised in the income and expenditure account for the year ended 31 December 2002?

- A** \$7,000
- B** \$11,500
- C** \$12,500
- D** \$23,000

For use by the first marker	For use by the second marker

Do not write in these columns below

1.18 ABC plc declared a final dividend of 5% for the year ended 28 February 2003. The nominal value of the shares is 50 cents. X bought 1,000 shares at a price of \$4 in December 2002 and the shares were valued at a price of \$3 on 28 February 2002.

For use by the first marker	For use by the second marker

What should be the final dividend received by X?

- A** \$25
- B** \$50
- C** \$150
- D** \$200

1.19 The internal accounts of E Ltd value stock at replacement cost. The warehouse manager has produced the following schedule for the values of the three items (X1, X2 and X3) in stock at the year end.

	<i>First In/ First Out</i> \$000	<i>Net realisable value</i> \$000	<i>Replacement cost</i> \$000
X1	10	20	30
X2	15	11	8
X3	<u>12</u>	<u>14</u>	<u>13</u>
	<u>37</u>	<u>45</u>	<u>51</u>

For use by the first marker	For use by the second marker

At what value should the stock be stated in the statutory financial statements?

- A** \$33,000
- B** \$37,000
- C** \$45,000
- D** \$51,000

1.20 The job descriptions of staff in the credit control department are normally segregated because

- A** lower salaries can be paid.
- B** work is completed more efficiently.
- C** control is facilitated.
- D** staff are less likely to become bored.

For use by the first marker	For use by the second marker

Do not write in these columns below

1.21 The style of management accounts within an enterprise is determined by

- A** company law.
- B** company law and accounting standards.
- C** the shareholders.
- D** the directors.

For use by the first marker	For use by the second marker

1.22 Which of the following is the best description of current purchasing power accounting?

- A** A method of accounting which considers the effects of changing price levels by reference to the retail price index.
- B** A method of adjusting historical cost accounts for the effects of changing price levels by using indices specific to the enterprise.
- C** A method of accounting which uses market values.
- D** A method of accounting which uses economic values (value in use).

For use by the first marker	For use by the second marker

1.23 The following information relates to P Ltd at 30 September:

	2003	2002
	\$000	\$000
Stock of raw materials	60	40
Work-in-progress stock	50	85
Stock of finished goods	20	28

For the year ended 30 September 2003:

	\$000
Purchases of raw materials	710
Manufacturing wages	42
Factory overheads	360

The prime cost of production in the manufacturing account for the year ended 30 September 2003 is

- A** \$690,000
- B** \$732,000
- C** \$1,092,000
- D** \$1,135,000

For use by the first marker	For use by the second marker

Do not write in these columns below

1.24 The following information was extracted from the pay slip of J, who received her net salary in cash for the month ended 31 March 2003:

	£
Gross salary	3,000
Tax deducted	450
Employer's national insurance	300
Employee's national insurance	250
Employer's contribution to pension fund	210
Employee's contribution to pension fund	180
Voluntary deduction for payment to charity	20

The charge to the profit and loss account, the balance on the payroll control account and the net pay for J's salary for March was

	<i>Charge to profit and loss account</i>	<i>Balance on payroll control account</i>	<i>Net pay</i>
A	£2,100	£1,410	£2,100
B	£3,510	£700	£2,300
C	£3,000	£1,000	£1,590
D	£3,510	£1,410	£2,100

For use by the first marker	For use by the second marker

1.25 Which of the following are normally produced in the month-end routine of a computerised accounting system?

- (i) Balances on all ledger accounts at the end of the month
- (ii) Balances on the debtors' and creditors' personal ledgers and the debtors' and creditors' control accounts
- (iii) Balance on stock (inventory)
- (iv) The profit and loss account and balance sheet

- A** (i) only
- B** (i) and (ii) only
- C** (i), (ii) and (iii) only
- D** All of them.

For use by the first marker	For use by the second marker

(Total = 50 Marks)

End of Section A

SECTION B – 50 MARKS

ANSWER ALL THREE QUESTIONS

IMPORTANT

MARKS ARE AWARDED FOR COMPLETING THE SHADED BOXES WITH THE CORRECT ANSWER WHERE A MARK IS INDICATED IN THE RIGHT-HAND COLUMN.

DO NOT WRITE IN THE MARGINS NOR IN THE COLUMNS FOR USE BY MARKERS.

Question Two

VA is a sole proprietor. He employs a book-keeper who uses an accounting software package to produce a trial balance. At the year end, his accountant manually prepares journal entries and asks the book-keeper to enter these into the accounting software package.

The trial balance of VA at 31 August 2003 is set out below.

	<i>Dr</i>	<i>Cr</i>
	\$	\$
Advertising	8,000	
Bank	2,000	
Bank loan		20,000
Bank interest	2,000	
Capital at 1 September 2002		20,000
Capital introduced		5,000
Carriage outwards	12,000	
Computing expenses	10,000	
Creditors		20,000
Debtors	30,000	
Discount received		3,000
Drawings	33,000	
Fixtures at cost	60,000	
Power	3,000	
Provision for depreciation on fixtures at 1 September 2002		15,000
Provision for doubtful debts at 1 September 2002		1,000
Purchases	240,000	
Rent	7,000	
Salaries	36,000	
Sales		383,000
Stock at 1 September 2002	<u>24,000</u>	
	<u>467,000</u>	<u>467,000</u>

The following additional information has been provided by the book-keeper to the accountant.

- (i) The stock at 31 August 2003 has been valued at \$20,000.
- (ii) The prepayment for rent at 31 August 2003 is \$2,000.
- (iii) The computer crashed in August 2003. An engineer gave an estimate of \$500 to repair the computer, which VA accepted. The engineer repaired the computer in August, but has not yet submitted his invoice.
- (iv) Depreciation on the fixtures is to be provided for the year ended 31 August 2003 on the reducing balance basis at $\frac{1}{3}$ per annum.
- (v) The provision for doubtful debts is to be 5% of the debtors.

Do not write in these columns below

<i>Required: (a)</i>	Marks available	For use by the first marker	For use by the second marker						
<p>(1) Prepare the journal entries for the information in items (i) to (v) on page 20. Use the journal schedule set out below and complete the name of the ledger account and the amount of the debit and credit in the shaded areas. You are NOT required to write a narrative for the journal entries.</p>									
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 45%;"><i>Ledger account</i></th> <th style="width: 25%; text-align: center;"><i>Dr</i></th> <th style="width: 25%; text-align: center;"><i>Cr</i></th> </tr> <tr> <td></td> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> </table>	<i>Ledger account</i>	<i>Dr</i>	<i>Cr</i>		\$	\$			
<i>Ledger account</i>	<i>Dr</i>	<i>Cr</i>							
	\$	\$							
(i)	1								
(ii)	1								
(iii)	1								
(iv)	1								
(v)	1								
sub-total:	5								

<i>Required: (a)</i>			Marks available	For use by the first marker	For use by the second marker
(2) Prepare the accounts for VA for the year ended 31 August 2003 by completing the shaded areas in the accounts below.					
<i>VA Trading, Profit and Loss Account year ended 31 August 2003</i>					
	\$	\$			
Sales					
Gross profit			2		
			$\frac{1}{2}$		
Less: Expenses					
			$\frac{1}{2}$		
			$\frac{1}{2}$		
			$\frac{1}{2}$		
			$\frac{1}{2}$		
			$\frac{1}{2}$		
			$\frac{1}{2}$		
			$\frac{1}{2}$		
			$\frac{1}{2}$		
			$\frac{1}{2}$		
			$\frac{1}{2}$		
Net profit					
sub-total:			7		

Question Two continued

Do not write in these columns below

				Marks available	For use by the first marker	For use by the second marker
<i>VA Balance Sheet at 31 August 2003</i>						
Fixed Asset	\$ Cost	\$ Provision for depreciation	\$			
				1		
Current Assets						
				1/2		
				1/2		
				1/2		
				1/2		
Current Liabilities						
				1/2		
Net Current Assets						
Long-term Liability						
				1/2		
Capital at 1 September 2002						
				1/2		
				1/2		
				1/2		
Capital at 31 August 2003						
Sub-total:				6		
<p>(b) VA is considering converting his business into a limited liability company. He has asked his accountant about the differences between the accounts of a sole proprietor and those of a limited liability company. His accountant explained that one of the differences is that the accounts of a limited liability company must show a true and fair view. You are required to explain the meaning of a “true and fair view” in the shaded area below.</p>						
Sub-total:				2		

Question Two Total = 20 Marks

Question Three

All transactions with customers of PFI Limited are recorded in personal accounts in the sales ledger, and the sales ledger control account is part of the double entry in the nominal ledger.

The following information relates to transactions with customers for the month ended 31 October 2003.

	\$
Sales ledger control account balance at 1 October 2003	20,000
Credit sales	200,000
Cheques received from customers	175,000
Discounts allowed	4,000
Returns inwards	5,000
Bad debts written off	7,000
Interest charged on debtors' accounts overdue	500
Contra with the purchase ledger control account	3,000
Cheque received relating to a debt which had previously been written off as bad	600
Total of the balances on personal accounts in the sales ledger at 31 October 2003	24,500

(a)	Required:		Marks available	For use by the first marker	For use by the second marker	
	Prepare the sales ledger control account by entering the description and the appropriate amount of the debit or credit in the schedule below.					
	<i>Sales ledger control account</i>	<i>Dr</i>	<i>Cr</i>			
	<i>Description</i>	<i>\$</i>	<i>\$</i>			
				1/2		
				1/2		
				1/2		
				1/2		
				1/2		
				1/2		
				1/2		
				1/2		
				1/2		
	Sub-total:			5		

(b) The following errors were subsequently discovered:

- (i) The total of the sales day book had been over-cast by \$1,000.
- (ii) A discount allowed of \$500 had been correctly entered in a debtor's personal account in the sales ledger, but no other entries in the books had been made.
- (iii) A credit note of \$800 for goods returned had been correctly entered in the sales ledger control account, but had not been entered in the debtor's personal account in the sales ledger.
- (iv) NHS is both a customer of and supplier to PFI Limited. A contra of \$1,200 between NHS debtor's account in the sales ledger and creditor's account in the purchase ledger had been omitted from the books.
- (v) The schedule of the balances on the personal accounts in the sales ledger had been under-cast by \$1,300.

Do not write in these columns below

<i>Required:</i>			Marks available	For use by the first marker	For use by the second marker
Prepare a statement reconciling the sales ledger control account and the total of the balances on the personal accounts in the sales ledger by entering a description and the appropriate amount in the shaded areas of the schedule below.					
<i>Description</i>	<i>Sales ledger control account</i>	<i>Total of balances on personal accounts in the sales ledger</i>			
	\$	\$			
Original balances at 31 October 2003		24,500			
			1		
			1		
			1		
			1		
			1		
Revised balances at 31 October 2003					
Sub-total:			5		

Question Three Total = 10 Marks

Question Four

The objective of the financial statements of an enterprise is to provide information about the financial position, performance and financial adaptability of that enterprise which is useful to a wide range of users for assessing the stewardship of management and for making economic decisions.

<i>Required:</i>		Marks available	For use by the first marker	For use by the second marker
(a)				
(i)	State the financial statement which provides information about the financial position of an enterprise and describe its key components. State why this information may be useful to users.	4		
	(maximum of 30 words)			
(ii)	State the financial statement which provides information about the performance of an enterprise and describe its key components. State why this information may be useful to users.	4		
	(maximum of 30 words)			
(iii)	State the key components of a cash flow statement. State why this information may be useful to users.	4		
	(maximum of 30 words)			
(b)				
(i)	Give two examples of users of financial statements.	2		
	(maximum of 30 words)			
	Sub-total:	14		

Question Four continued

	<i>Required:</i>	Marks available	For use by the first marker	For use by the second marker
(ii)	Give one example of an economic decision based on accounting information that may be made by each of two different categories of users of financial statements. (maximum of 30 words)	3		
(c)	Explain the meaning of the term "stewardship". (maximum of 30 words)	3		
Sub-total:				

Question Four Total = 20 Marks

End of Question Paper