

May Examination Period 2022-23

ECN 120 Elements of Accounting

Duration: 2 hours

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Answer ALL questions

Calculators are permitted in this examination. Please state on your answer book the name and type of machine used. Complete all rough workings in the answer book and cross through any work that is not to be assessed.

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Examiner: Luca Larcher

Question 1

Use the following list of transactions and the balance sheet for 2021 of Stepney Ltd. to prepare:

- a) The income statement for 2022. Show your calculations and explain them.

[20 marks]

- b) The balance sheet for 2022. Show your calculations and explain them.

[20 marks]

The transactions are:

1. Premises were rented at an annual rent of £25,000. During the year rent of £28,000 was paid to the owners of the premises.
2. Rates of 4,800 were paid during the year, for the period 01-Apr-2021 to 31-Mar-2022.
3. During 2022, the company paid £55,000 in wages. At the end of the year, wages for £6,000 were still outstanding.
4. Inventories totalling £118,000 were bought on credit and £63,000 for cash.
5. Sales revenue on credit totalled £248,000.
6. Sales revenue for cash totalled £89,000.
7. Cost of sales is 40% of the sale price.
8. Receipts from trade receivables totalled £212,000. The company granted a discount of £2,000 for early repayment.
9. Payments to trade payables totalled £132,000.
10. Vehicle running expenses totalled £16,300.
11. On 1/1/22 the company sold its only property for £35,000 in cash. No depreciation is charged on this property for 2022.
12. During the year it became clear that the company will not be able to collect receivables totalling £3,500.
13. Utility bills are paid quarterly in arrears. During the year the company paid £4,500 towards utility bills and the amount outstanding at the end of the year was £900.
14. Interest on the bonds is 4% per year. The bank loan is interest-free.
15. During the year the company repaid £5,000 of the bank loan.
16. Taxation on profits is 30%. Corporation tax is paid 6 months in arrears (i.e. taxes for the year ended on 31/12/2022 will be paid on 30/6/2023).
17. The company paid a dividend of £4,000 to shareholders.
18. Fixtures and Fittings were purchased in 2020 for £30,000, are depreciated using the straight line method over 10 years and have a residual value of £2,000
19. Vehicles are depreciated using the reducing balance method with 30% annual depreciation.

The balance sheet is:

Balance Sheet for Stepney Ltd. at 31-Dec		2021
Assets		
Non-current	Property	42,000
	Fixtures and Fittings	27,200
	Vehicles	15,000
Current	Inventories	32,500
	Trade Receivables	16,400
	Prepaid Rates	600
	Prepaid Rent	2,000
	Cash	15,200
	Total Assets	150,900
Liabilities		
Current	Trade Payables	23,700
	Accrued Utility bills	500
	Current Tax Payable	16,300
Non-current	Bonds	25,000
	Bank Loan	12,000
Equity		
	Share Capital	50,000
	Retained Earnings	23,400
	Total Liabilities & Equity	150,900

Question 2

Record the following transaction in the appropriate T accounts, indicating the type of each account that you use (i.e. asset, liability, etc.). Each transaction should be identified by its number.

1. Cash sales for £15,000
2. Purchase of machinery for £7,000
3. Purchase goods on credit for £3,000
4. Credit sales for £5,000
5. Pay £2,000 to suppliers

[20 marks]

Question 3

Consider the following income statement for the year ended on 31/12/2022 (all data expressed in £):

sales revenue	174,300
cost of sales	<u>-73,600</u>
gross profit	100,700
wages	-23,565
administrative expenses	-9,560
rent expenses	-12,000
discounts granted	-2,000
depreciation	<u>-20,000</u>
operating profits	33,575
interest expenses	<u>-1,260</u>
pre-tax profits	32,315
corporation tax (20%)	<u>-6,463</u>
profits for the year	25,852

And the following balance sheets for the same company:

	31/12/2022	31/12/2021
Assets:		
PPE	65,000	55,000
inventories	5,670	12,340
trade receivables	29,500	23,670
prepaid rent	4,000	0
cash	23,705	24,050
Liabilities:		
tax payable	6,463	3,500
trade payables	32,000	45,600
bank loan	1,000	2,400
10% bond	10,000	10,000
Equity:		
share capital	30,000	30,000
retained profits	48,412	23,560

Comment on the solvency and liquidity of the company using the ratios that you consider most appropriate. How have solvency and liquidity evolved in 2022?

[10 marks]

Question 4

Consider the following statements. For each one state whether the statement is true or false and provide a brief explanation to support your answer.

- a) Purchases and sales of non-current assets do not have any profit implications.
[6 marks]
- b) An increase in trade receivables is shown as a cash inflow on the cash flow statement.
[6 marks]
- c) When accounting for inventory, FIFO and LIFO will generally give the same value of cost of goods sold.
[6 marks]
- d) If a company is sure that it will not be able to collect one of its receivables, then it should cancel it.
[6 marks]
- e) The cash account will always show a debit balance.
[6 marks]

End of Paper

End of Examination/ Luca Larcher