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**Introduction to Accounting**  
**NQF**  
**Subject Examiner's Report**

**Unit Title:** Introduction to Accounting

**Unit Code:** 1.3IA

**Level:** 3

**Session:** December 2015

## Question 1

- (a)** Describe the following types of budgets and identify two advantages and two disadvantages of each:  
(i) Zero-based budgets  
(ii) Incremental budgets **(12 marks)**
- (b)** Explain what is meant by the term 'limiting budget factor' and discuss its role in the setting of budgets. **(5 marks)**
- (c)** Explain what is meant by each of the following:  
(i) Flexible budgets  
(ii) Rolling budgets **(8 marks)**

### Learning Outcome

9 Describe and explain the concepts and principles of budgeting and the essential factors behind budgetary control

## 1. Comments on learners' performance

This was not a popular question. Candidates showed some general understanding of the different types of budget. The amount of detail was often limited and there was some confusion between the budgets stated in the question.

Advantages and disadvantages, when quoted, did not always relate to the budgets discussed.

The term 'limiting budget factor', in (b) was only understood by a minority of candidates and answers for this part of the question tended to be short.

Candidates had a reasonable understanding of flexible budgets although a number suggested that the budgets would change whenever the actual results did not match the budget. Although flexible budgets do recognise the impact of reality on plans, flexible budget offer alternatives to an original plan rather than as a way to force the budget to match the actual outcomes. Rolling budgets were not well understood.

## 2. Mark scheme

- (a)** (i) Zero-based budgets do not rely on any earlier budget. Every item within the budgets has to be justified. **2**  
Advantages – overspending is avoided. **1**  
– inefficiencies are avoided. **1**  
Disadvantages – time consuming. **1**  
– expensive to operate. **1**
- (ii) Incremental budgets build on previous budgets. A percentage is added to costs for inflation. **2**  
Advantages – easy to understand. **1**  
– easy to implement. **1**  
Disadvantages – inefficiencies are not challenged. **1**  
– wastage and overspending. **1**  
**(12 marks)**
- (b)** A limiting budget factor is a constraint which limits the activities of a business. **1**  
Often the limiting factor is the maximum sales that an organisation can make. **1**  
The budget related to the limiting factor is the first one which would be calculated. **1**  
Other budgets are then contingent on the budget restricted by the limiting factor. **1**  
The limiting factor may remain the same from year to year or may be replaced by another, for example, the amount of raw materials available. **1**  
The amount of the limiting factor will also change year to year so must be determined when preparing the budgets. **1**  
**(max 5 marks)**
- (c)** (i) Flexible budgets change with the level of activity. **1**  
They take account of different types of cost. **1**  
Variable costs alter with the level of production. **1**

Fixed costs over a range do not alter with production levels. 1  
Flexible budgets allow a business to accommodate different possible outcomes. 1  
The flexibility allows a business to easily address the effects of external influences. 1

(ii) Rolling budgets aim to account for changed circumstances during a year. 1  
Forecasts are updated every few months. 1  
This reassesses the business outlook several times a year. 1  
And corrective action can take place if needed. 1  
This means that the budget is more realistic than a conventional fixed budget. 1

(max 8 marks)

**Total Maximum Marks for Q1**

**25 marks**

### 3. Recommendations

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It is important to be able to differentiate between types of budget. Learners are likely to work with budgets during some or most of their working lives so an understanding of their purpose, their preparation and type will ensure that the learner is a valuable member of the organisation within which they are working and will be able to contribute towards business planning and control.

Zero-based budgets start afresh and do not take into account previous years' budgets or results. Incremental budgets start with an appreciation that the previous year act as a basis for calculation of figures for the year to come. The differences between the two should be well understood. Incremental budgets are less expensive to operate. However, they can, over time, incorporate errors and over-expenditure from earlier years. An advantage of one budget is likely to be a disadvantage of another but in the examination try to give diverse differences.

Limiting factors for budgets are based on how the organisation operates, the type of business it undertakes and how it is set up. In many trading businesses, the limit to a business' ability to trade and grow is the amount of sales it can make. Think about local businesses and what limits them.

The characteristics of different types of budget may be learned from recording the characteristics in a table and comparing one type of budget to another.

#### Examiner's tips

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Budgeting is a useful planning and control technique used by many organisations.  
Thinking about how it is used will help understanding.  
Learn the different types of budget, their uses, advantages and disadvantages

## Question 2

(a) Prepare for Russet Ltd for the year ended 31 October 2015:

- (i) A reconciliation of the Operating Profit before Tax to Net Cash Inflow from Operating Activities. (7 marks)  
(ii) The Statement of Cash Flows. (12 marks)  
(b) Describe three uses of a Statement of Cash Flows. (6 marks)

### Learning Outcome

4 Understand the need for and complete accurately a cash flow statement

## 1. Comments on learners' performance

This question was not popular with candidates. Of the candidates who did attempt the question, many appeared unsure about the constituents and presentation of the financial statement. There was also some misunderstanding of which items in the statement represented inflows of cash and which represented outflows. As there have been changes in the format of such statements in recent years following the introduction of a new accounting standard, reward was given for an appropriate format following one or other of the guidelines. A few candidates brought the calculation of the reconciliation of operating profit before tax to net cash flow within the main statement and this was rewarded as appropriate.

Less well prepared candidates unfortunately used both the opening and closing balances of inventories, accounts receivable and so on in the statement. Generally these did not lead to a calculation of the net flow for the period but the occasional answer did achieve this calculation.

It was good to see that some candidates used appropriate headings in the Statement of Cash Flows. This, of course, indicates an appreciation of the activities within the organisation and how these contribute to the flow of cash.

Candidates were generally able to identify three uses of Statements of Cash Flows although a number mentioned them as being able to give an indication of profit for the year. The statement is, of course, focused on cash and liquidity rather than profitability.

## 2. Mark scheme

(a) (i) Reconciliation of Operating Profit before Tax to Net Cash Inflow from Operating Activities

	£000	
Operating profit before interest and tax	195	1
Depreciation	80	1
Increase in inventory (stock)	(10)	1
Decrease in accounts receivable (debtors)	35	1
Decrease in accounts payable (creditors)	(5)	1
Net cash inflow from operating activities	<u>295</u>	1 + 1 OF

(7 marks)

(b) Russet Ltd

Statement of Cash Flows for the year ended 31 October 2015 1

	£000		£000
<b>Cash inflow from operating activities</b>			
Net cash flow from operating activities			295 1 OF
<b>Returns on investment and servicing of finance</b>			
Interest paid	(35)	1	
Dividends paid	<u>(50)</u>	1	(85)
<b>Taxation</b>			(30) 1
<b>Investing activities</b>			

Receipts from sale of non-current assets	50	1		
Purchases of non-current assets	<u>(120)</u>	1	<u>(70)</u>	
<b>Net cash inflow before financing</b>			110	<b>1 OF</b>

### Financing

Increase in share capital	20	1		
Decrease in long-term loan	<u>(80)</u>	1	<u>(60)</u>	
<b>Increase in cash and cash equivalents</b>			<u><u>50</u></u>	<b>1+1 OF</b>

**(12 marks)**

- (c)
- how cash has been obtained and spent.
  - Shows the relationship between the generation of profit and cash.
  - Provides information about liquidity.
  - It reports to users on information which is not directly included in the other financial statements.
  - It can be used to help the business obtain finance such as a bank loan.

Shows

2

2

2

2

2

**(max 6 marks)**

**Total Maximum Marks for Q6**

**25 marks**

### 3. Recommendations

The differences between the indirect and direct methods of preparing Statements of Cash Flows should be known and practiced. In reality, most statements produced use the indirect method.

The indirect method starts with a reconciliation of net profit with the net cash flow. This involves the changes in inventory, accounts receivable at the start and end of year and so on. Practice in preparing the reconciliation calculation will help candidates appreciate the direction of the cash flow.

In addition to the reconciliation, the financial statement shows the changes in non-current assets and financing and, finally, the increase or decrease in cash.

The flows are used by users of financial statements to indicate the liquidity of a business over time and it helps users of financial statements who would like to know how cash was generated in the organisation and through external sources and how the cash has been used.

#### Examiner's tips

Inflows in cash arise from the sale of assets and receipts from income and borrowing,.

Outflows take place when payments are made.

The presentation should be known .

Remember that the statement does not calculate profit.

### Question 3

(a) Prepare journal entries to record the correction of the above errors and omissions. (Narrations for each journal entry are not required.) **(11 marks)**

(b) Prepare the Suspense account to show the opening balance and the appropriate corrections. **(4 marks)**

(c) Prepare the revised Trial Balance for Sycamore Ltd at 31 October 2015 after corrections have been made. **(10 marks)**

#### Learning Outcome

2 Describe, explain and accurately reflect double entry bookkeeping principles and adjustments from books of original entry such as day books to the trial balance stage

### 1. Comments on learners' performance

Only a small minority of candidates tackled this question. Part (a) asked for journal entries to record corrections and omissions. However, most candidates provided their answers in ledger account format. A better result was shown in (b) for the suspense account.

The trial balance in (c) saw mixed results. The adjustments were sometimes added rather than subtracted and vice versa. Candidates also experienced some difficulties with discounts, depreciation and other adjustments which were posted on the incorrect side of the trial balance.

### 2. Mark scheme

#### (a) Journal

Motor expenses	Dr	£	1,000	1	£		
General expenses					1,000	1	
Equipment	Dr	£	3,000	1	£		
Purchases					3,000	1	
Bank	Dr	£	2,000	1	£		
Trade receivables					2,000	1	
Trade receivables	Dr	£	10,000	1	£		
Suspense					10,000	1	
Suspense	Dr	£	8,000	1	£		
Discounts allowed					4,000	1	
Discounts received					4,000	1	

**(11 marks)**

#### (b) Suspense

	£		£		
Balance b/d	2,000	1	Trade receivables	10,000	1
Discounts allowed	4,000	1			
Discounts received	4,000	1			
	<u>10,000</u>			<u>10,000</u>	

**(4 marks)**

#### (c) Sycamore Ltd - Trial Balance as at 31 October 2015

	£000		£000
Revenue (sales)			82
Purchases (41 – 3)	38	1	
Opening inventory (stock)	4		
Salaries and wages	22		
Rent and rates	9		
General expenses (7 – 1)	6	1	

Motor expenses (1 + 1)	2	1		
Discounts received			4	1
Trade receivables (debtors) (10 – 2 + 10)	18	1+1		
Trade payables (creditors)			6	
Cash at bank (2 + 2)	4	1		
Motor vehicles – at cost	16			
– accumulated depreciation			12	
Ordinary share capital (£1 shares)			13	
Retained profits			5	
Equipment	3	1		
	<u>122</u>	1	<u>122</u>	1

(10 marks)

Total Maximum Marks for Q3

25 marks

### 3. Recommendations

Practice in preparing Journal entries and understanding when they are used will help understanding. In questions on errors, some will reflect in a suspense account and others not.

The trial balance will involve debit balances for expense and assets accounts and credit balances for liabilities and capital. Learn which items feature in the trial balance. It will be studied as the end of questions on ledger accounts and the start of questions on final account preparation so a thorough understanding of the trial balance helps with appreciating the accounting process from the initial transaction to the presentation of useful information for decision making.

#### Examiner's tips

Journal entries usually require narrative explanations. These should describe what the journal entries represent, such as 'posting of entries previously omitted' and not 'error of omission'.

Ledger accounts are useful to use in workings to help calculate journal entries. Show workings in the trial balance where any adjustment is to be made.

## Question 4

(a) Explain each of the following terms, used in break-even analysis:

- (i) Fixed costs
- (ii) Variable costs
- (iii) Contribution per unit
- (iv) Break-even point
- (v) Margin of safety

(10 marks)

(b) (i) The break-even point for the last three months, 1 September to 30 November 2015, in units and £s.

(5 marks)

(ii) Profit/(loss) in £s for the period 1 September to 30 November 2015.

(3 marks)

(iii) The projected break-even point in units for the next three months, 1 December 2015 to 29 February 2016.

(4 marks)

(iv) The projected profit/loss in £s for the next three months from 1 December 2015 to 29 February 2016.

(3 marks)

### Learning Outcomes

6 Describe, explain and calculate accurately different elements of costs

8 Describe and explain the essential concepts and principles of break-even analysis and undertake calculations accurately to demonstrate their overall understanding and knowledge

## 1. Comments on learners' performance

Break-even analysis has become a more popular topic in recent examinations and a number of candidates answered this question. A range of answers were seen and some candidates achieved good results.

In (a) terms associated with break-even analysis need to be explained. Candidates were generally able to explain fixed and variable costs and the break-even point. They found contribution per unit and margin of safety more difficult to explain.

A similar pattern was seen in part (b) of the question with candidates being able to calculate the break-even point. The calculation of profit was less successful and some candidates attempted to calculate profit from sales and cost of sales although the information did not lead in that direction.

Well prepared candidates understood the calculations and less well prepared has some difficulties in calculating the contribution per unit and some added fixed and variable costs together within their calculations rather than keeping them separate.

## 2. Mark scheme

- (a) (i) Fixed costs are those which remain constant over a range of levels of output. **2**  
(ii) Variable costs change in proportion to the level of production. **2**  
(iii) Contribution per unit is the amount generated per unit after deducting the variable costs per unit from the sales price per unit. **2**

Accept that it is a contribution to fixed costs for 1 mark.

(iv) Break-even point is the point at which the income from sales equals the variable costs plus fixed costs. **2**

OR It is the point at which no profit or loss is made. **2**

(v) Margin of safety is the extent by which sales income exceeds the break-even point. **2**

(10 marks)

(c) (i) Break-

$$\text{even point} = \frac{\text{Fixed costs}}{\text{Contribution per unit}} = \frac{2,000}{8 - 3} = 400 \text{ units} \quad \text{1} \quad \text{1} \quad \text{1} \quad \text{1}$$

(ii) Profit - £5 contribution x 2,500 = £12,500 **1** - £2,000 **1** fixed costs = £10,500 **1**

(iii) Break-even point projected = 4,500 **1** = 1,000 units **1**



$$7.50 - 3.00 \quad 1 + 1$$

(iv) Project profit - £4.50 contribution x 6,000 = £27,000 **1** - £4,500 **1** = £22,500 **1**

**(15 marks)**

**Total Maximum Marks for Q4**

**25 marks**

### 3. Recommendations

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Fixed and variable costs can be explained with relation to activity levels for variable costs and not related to production activity for fixed costs. Having a clear understanding of these types of cost and the calculation of contribution is essential to being able to calculate the break-even point and margin of safety.

The break-even point is the point at which neither profit nor loss is made and candidates find it straightforward to explain this. The margin of safety is the area between break-even point and total sales at which profit is generated. Such definitions are regularly tested and should be known.

#### Examiner's tips

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If a question asks for a calculation of profit this should be done with relation to contribution. Workings should be shown to indicate that the various calculations are clearly understood.

## Question 5

(a) Describe how **each** of sole traders, partnerships and limited companies account for:

- (i) Owner's capital
- (ii) The sharing and distribution of profits
- (iii) Taxation on profits

(9 marks)

(b) Describe the type of financial information that a large company produces in its Annual Report that would be of interest to prospective shareholders. Your answer should explain why the information you have identified would be of interest.

(6 marks)

(c) Explain how the following assist prospective shareholders when they are comparing potential investments in companies:

- (i) Going concern concept
- (ii) Materiality concept
- (iii) Accounting standards

(10 marks)

### Learning Outcome

1 Describe and explain briefly the nature and scope of accounting

## 1. Comments on learners' performance

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This question was quite popular with candidates. It considered the differences between sole traders, partnerships and companies and some candidates were able to provide good answers about the owner's capital and sharing and distribution of profits. Taxation of profits proved to be more difficult.

It was unfortunate that numerous answers mixed up some of the terminology. It was not unusual to read about partners in companies and sole trader businesses, share capital in respect of partnerships and sole traders as well as companies and directors in all types of business. These characteristics are very specific to particular types of business and should be clearly identified with the appropriate organisation. Many candidates recognised that tax is paid on profits but a number stated that the amount of tax paid by a company was more than that of a partnership and that a sole trader did not earn enough to pay tax. The question was really looking at who pays the tax. It is a personal liability in the case of partnerships and sole traders. However, the company itself pays tax on profits.

Part (b) of the question addressed financial information and the answer envisaged a discussion about profitability, the survival of the business, its attraction as an investment and such characteristics. Many candidates identified specific financial statements instead and reward was given for reasonable discussion based on those statements.

Part (c) considered accounting concepts and standards and was not well answered. The going concern concept was the best answered of the three parts with some recognising it as a way of deciding if the business will continue in operation or not. However, there were many answers which addressed general concerns that a business or management might have. Materiality often provoked a discussion about the materials used in the organisation although a number of past examiner reports have highlighted that it is the materiality concept that is to be considered, not materials. Accounting standards are, of course, rules and guidance which assist with presentation of financial statements and accounting for concepts and bases, such as depreciation. They are not, as suggested in a number of answer the personal standards to which an accountant to should live up to.

## 2. Mark scheme

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(a) (i) Owner's capital is accounted for:

Sole trader – as an entry in the Statement of Financial Position.

1

– within the ledger accounts recording the initial investment in the business plus any additions, including profit, over time less drawings.

1

Partnership– as entries for each partner in the Statement of Financial Position.

1

– within the ledger accounts recording the initial investment and any changes over time although day to day movements usually occur on current accounts

1

Company – as an entry for the entire share capital in the Statement of Financial Position.

1

– within a variety of reserves indicating what is owed to shareholders but has yet to be distributed. **1**

**Max 1 mark for each**

(ii) The sharing and distribution of profits:

Sole trader – recorded within the capital account. **1**

– shown as drawings from the business. **1**

Partnership – operating profit is appropriated in the Appropriation account. **1**

– posted to the current accounts, usually, of individual partners **1**

– withdrawn as drawings. **1**

Company – operating profit is appropriated in the Appropriation account. **1**

– distributions recorded in the accounts as dividends. **1**

– funds yet to be distributed are shown as reserves. **1**

**Max 1 mark for each**

(iii) Taxation on profits:

Sole trader – tax is personal so is not included in the accounts. **1**

Partnership – tax is personal so is not included in the accounts. **1**

Company – tax on operating profit is recorded as a charge against profit after operating profit. **1**

– tax due appears as a current liability in the Statement of Financial Position **1**

**Max 1 mark for each**

**(max 9 marks)**

**(b)** A prospective shareholder would be looking for either or both of income and capital growth for a prospective investment. **1**

Hence, the comparative profitability over time in both amounts and ratios would be of interest. **1**

The ability of the company to survive would also be of interest. **1**

The strength of the company as measured by its assets, liquidity and plans for the future would emphasise the likelihood of survival. **1**

This information would enable the potential investor to judge if growth and income was likely over a future time period. **1**

Commitment by the company to undertake or refrain from specific trade/courses of action. **1**

This would help prospective investors to judge whether the company had a similar ethical stance to their own. **1**

Sufficient information in a comparative form to be able to decide which investment to make. **1**

**(max 6 marks)**

**(c)** (i) Going concern concept

This assumes that an organisation will continue trading without a substantial reduction in activities for the foreseeable future. **1**

It's application means that values of assets would be based on the business continuing and not on a forced sale basis. **1**

Adjustments would need to be made to valuations if a business was a 'gone concern'. **1**

Additional expenses of liquidating an organisation would not need to be considered so profits would accrue. **1**

Extra expenses would occur in a 'gone concern'. **1**

If a company was not considered to be a going concern it is unlikely to be of interest to an investor. **1**

(ii) Materiality:

Items are not recorded individually in the accounts if it serves no useful purpose. **1**

It would therefore be more useful to show a single figure for inventory (stock) of £10,000 rather than £100 worth of product A, £8,000 worth of product B, £1 of product C and so on **1**

A potential investor would be better served by clarity in the accounts and a limited number of groupings of assets and liabilities as opposed to a long list of items, particularly if many were of small or inconsequential amounts. **1**

Comparison year to year and between companies is easier if materiality is generally used. **1**

A company which did not follow the concept of materiality would waste time and expense which would not be attractive to a potential investor. **1**

(iii) Accounting standards provide rules and guidance on:

Presentation of accounts, making comparison easier for a potential investor. **1**

Valuations of assets and liabilities, ensuring that the values are understandable and are appropriate. **1**

The accounting options available to an organisation, for instance allowing only a few methods for accounting for depreciation. The information is therefore more reliable for decision making. It is not possible to manipulate profit figures and values excessively through the use of different accounting methods. 1  
The need to disclose the effect of any changes made to the company's accounting policies so that the potential investor is easily able to see the changes and understand the reasons for them being made. 1  
As all large companies need to apply accounting standards, potential investors with a good understanding of the effect and implications of the accounting standards will be better able to assess the results of one company against another without having to make a number of adjustments to account for particular accounting policies. 1

(max 10 marks)

**Total Maximum Marks for Q5      25 marks**

### 3. Recommendations

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Accounting provides information about different types of business and the three types of sole trader business, partnerships and companies affect matters such as profit sharing and capital and how this is reflected in the accounts. A good understanding of the types of business will aid understanding. Matters such as limited and unlimited liabilities, internal and external funding are key features to be known.

Financial statements focus on profitability, the strength of the organisation and liquidity and different users groups will need elements of that information. Think about the different user groups and their needs and how these link with the different financial statements.

There are a variety of accounting concepts which should be understood. These are accounting concepts and therefore relate to finance and not other aspects of the business.

#### Examiner's tips

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When considering the usefulness of financial information it is useful to think about stakeholders and what they need to know about the organisation.  
Study the accounting concepts, accounting bases and standards carefully as it will help an appreciation of why adjustments are made in account.

## Question 6

- (a) Prepare the Statement of Comprehensive Income for Leadwood Ltd for the year ended 31 October 2015. **(14 marks)**  
 (b) Prepare the Statement of Financial Position for Leadwood Ltd at 31 October 2015. **(11 marks)**

### Learning Outcome

3 Prepare a set of final annual accounts, including any appropriate adjustments needed, for a sole trader, a partnership and a limited company

## 1. Comments on learners' performance

This was the most popular question in the examination and among the best answered. Candidates were clearly well drilled in the preparation of a Statement of Comprehensive Income and Statement of Financial Position. Generally they showed a good understanding of the presentation of the financial statements and were able to deal with the normal adjustments seen in questions of this type, for example, accruals and prepayments.

The more difficult aspects for candidates related to dividends paid and the transfer to general reserve which were rarely seen. A similar difficulty was experienced in the capital and reserves section in the Statement of Financial Position.

In the information in the question the trial balance figures were in thousands of pounds. Hence, 640 for salaries and wages means £640,000. Instead of adding the accrued salary of £60,000 to £640,000 making a total of £700,000, a significant minority added £60,000 to £640 totalling £60,640. This approach has been seen in the examination in previous sittings but it was more extensive this time than in the past. Credit was given where possible although figures were significantly different than in the mark scheme below.

## 2. Mark scheme

### (a) Leadwood Ltd

#### Statement of Comprehensive Income (Profit and Loss Account) for the year ended 31 October 2015

	£000		£000	
Revenue (sales)			3,060	1/2
Opening inventory (stock)	85	1/2		
Purchases	990	1/2		
	1,075			
Closing inventory (stock)	105	1/2		
Cost of goods sold			970	1/2 OF
Gross profit			2,090	1/2 OF
Salaries and wages ( 640 + 60)	700	1		
Rent and rates (310 – 20)	290	1		
Heat and light	125	1/2		
Motor expenses	150	1/2		
Sundry expenses	280	1/2		
Depreciation:				
- Buildings (200 x 3%)	6	1		
- Plant and machinery (110 – 10) / 5	20	1		
- Motor vehicles (80 – 70) x 50%	5	1	1,576	
Profit on ordinary activities before tax			514	1/2 OF
Tax on profit on ordinary activities			109	1/2
Profit on ordinary activities after tax			405	
Retained profit b/f			415	1/2
			820	1/2 OF
Interim dividend paid	100	1/2		
Transfer to general reserve	700	1/2	800	
Retained profit c/f			20	1/2 OF

**(14 marks)**

(b) Leadwood Ltd

Statement of Financial Position (Balance Sheet) at 31 October 2015

	£000	£000	£000	
<b>Non-current assets</b>				
Land and buildings	800	66	734	$1\frac{1}{2}$
Plant and machinery	110	60	50	$1\frac{1}{2}$
Motor vehicles	80	75	5	$1\frac{1}{2}$
	<u>990</u>	<u>201</u>	<u>789</u>	
<b>Current assets</b>				
Inventory		105		$\frac{1}{2}$
Trade receivables		180		$\frac{1}{2}$
Cash at bank		65		$\frac{1}{2}$
Prepayments		20		1
			<u>370</u>	
			<u>1,159</u>	
<b>Capital and reserves</b>				
Ordinary share capital			100	$\frac{1}{2}$
Share premium			10	$\frac{1}{2}$
General reserve			700	$\frac{1}{2}$
Retained profit			20	$\frac{1}{2}$
			<u>830</u>	
<b>Current liabilities</b>				
Trade payables		160		$\frac{1}{2}$
Tax payable		109		$\frac{1}{2}$
Accruals		60		1
Retained profit c/f			<u>329</u>	
			<u>1,159</u>	

(11 marks)

Total Maximum Marks for Q6

25 marks

### 3. Recommendations

Candidates should ensure that they are clear in the general presentation of the Statements of Comprehensive Income and Statement of Financial Position. This is more easily achieved with the final accounts of sole traders than other types of organisation. Once a clear understanding has been achieved, candidates should then aim to achieve an understanding of the differences between a sole trader, a partnership and a company in respect of final accounts. Practice is essential to ensure both accuracy and speed in making calculations and in presenting the statements correctly.

#### Examiner's tips

There will always be adjustments in final accounts – learn how to deal with accruals, prepayments, bad debts and provision for doubtful debts and depreciation.

Columns as shown in the statements above make it easier to add up figures.

Remember that the heading above columns show the units in which figures are expressed. This can be in £, in £'000 or in £'million most commonly.

Remember which figures are added and which taken away.

## Question 7

(a) Calculate, to two decimal places, the following at 31 October 2015:

- (i) Gross profit to sales
- (ii) Net profit to sales
- (iii) Return on average capital employed
- (iv) Current ratio
- (v) Acid test ratio
- (vi) Trade receivables (debtor) days
- (vii) Trade payables (creditor) days

(15 marks)

(b) Examine the performance of Mangosteen Ltd over the period. Your answer should make particular reference to profitability and liquidity, giving possible reasons to explain any changes in performance over the two years.

(10 marks)

### Learning Outcome

5 Undertake some financial ratio analysis of a company's accounts and make reasoned judgements and comments on company performance based on their figures

## 1. Comments on learners' performance

The question tests the ability of candidates to calculate ratios. The well prepared candidates were able to calculate a number of the ratios. The current and acid test ratios and gross and net profit to sales were well understood. Other ratios were more of a challenge for candidates.

The discussion on performance in (b) was also quite challenging for candidates. Comments tended to focus on the changes over the period. However, the reasons for the changes eluded many candidates.

## 2. Mark scheme

(a)			
(i)	to sales	$\frac{160 - 80}{160} \times 100 = 50\%$	Gross profit
		$\frac{1}{2} + \frac{1}{2}$	
(ii)	sales	$\frac{160 - 80 - 60 - 5}{160} \times 100 = 9.38\%$	Net profit to
		$\frac{1}{2} + \frac{1}{2} + \frac{1}{2} + \frac{1}{2}$	
(iii)	average capital employed	$\frac{15}{(70 + 55) / 2} \times 100 = 24\%$	Return on
		$\frac{1}{2}$ OF $\frac{1}{2}$ $\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$	
(iv)		$20 + 15 + 8 : 10 = 4.3:1$	Current ratio
		$\frac{1}{2} + \frac{1}{2} + \frac{1}{2} + \frac{1}{2}$	
(v)	ratio	$15 + 8 : 10 = 2.3:1$	Acid test
		$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$	
(vi)	receivables (debtor) days	$\frac{15}{160} \times 365 = 34.22$ days	Trade
		$\frac{1}{2}$ $\frac{1}{2}$	
(vii)	payables (creditor) days	$\frac{10}{90} \times 365 = 40.56$ days	Trade
		$\frac{1}{2}$ $\frac{1}{2}$	

(15 marks)

(b) Mangosteen Ltd has been less profitable in comparison to sales and capital employed for the year to 31 October 2015 than in the previous period.	1
This is shown by all three profitability ratios.	1
Net profit to sales is significantly less.	1
As the gross profit to sales ratio has declined, either the sales price per unit has declined or the purchase price per unit has increased.	1
The significant decline in net profit to sales possibly indicates a worsening control over expenses.	1
The drop in net profit has impacted on a reduced RoCE.	1
The company is more liquid at 31 October 2015 than a year earlier.	1
This is shown by both the current ratio and the acid test ratios.	1
The increase in working capital ratios perhaps indicates that the company has become less effective in managing its working capital.	1
It is holding twice as much inventory at the end of the current year than a year earlier.	1
The trade receivable days are not significantly different.	1
However, trade payable days are less in the current year.	1
	(10 marks)

**Total Maximum Marks for Q7**

**25 marks**

### 3. Recommendations

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There are a limited number of ratios to remember and are best remembered in groups, for profitability, liquidity and activity. Practice will improve ability to make the calculations. Some ratios are easier to remember and calculate than others. For instance, return on capital employed can be seen as difficult. A good way to build confidence when calculating ratios is to work through the more straightforward ones first.

When making comments, try not only to look at individual ratios but also at the groups of ratios and how they interrelate.

#### Examiner's tips

Some figures are used again and again in calculations, such as sales and current liabilities. Underlining these key figures or highlighting them may save time in calculations. Think about reasons for changes in ratios. There are a limited amount of reasons and these can generally be remembered. Show the formulae when calculating ratios to help guide your answers.



### Question 8

- (a) Identify four objectives of cost and management accounting. **(4 marks)**  
 (b) Calculate the weekly wages paid to Kaylar, Mercy and Sammy for the week ended 31 October 2015. **(13 marks)**  
 (c) Calculate, for Kasigo, using the FIFO inventory method of valuation, the closing inventory (stock) value at 31 October 2015, showing the balance after each issue and purchase. **(8 marks)**

#### Learning Outcomes

6 Describe, explain and calculate accurately different elements of costs

7 Describe, explain and calculate labour and material costs

### 1. Comments on learners' performance

This was a popular question and was well answered by candidates. Many were able to identify objectives of cost and management accounting although extra points which related to financial accounting did appear in some answers.

In (b) it was pleasing to see a better performance in making calculations of weekly wages than in past examinations. The less well prepared tended to calculate wages based on units on a single rate but many candidates recognised that there are levels of payment for each rate quoted and that they all need to be accumulated. Hourly wages proved to be easier to calculate.

The calculation of inventory using FIFO was well answered and a significant number of candidates gained full reward for this part of the question.

### 2. Mark scheme

(a) Four objectives are to:

Compute the actual cost of operations, processes, departments or products. **1**

Analyse variances, profitability or the social use of funds. **1**

Provide advice to management on the formulation and effects of policy. **1**

Assist in providing estimations and price setting. **1**

Assist in forecasting, monitoring and control. **1**

Assist in decision making through a range of techniques. **1**

**(max 4 marks)**

(b) Kaylar

	£	
35 hours x 12	420	<b>1</b>
4 hours x (12 x 1 <sup>1</sup> / <sub>4</sub> )	60	<b>1</b>
2 hours x (12 x 1 <sup>1</sup> / <sub>2</sub> )	36	<b>1</b>
	<u>516</u>	<b>1</b>

**Mercy**

	£	
Basic	100.00	
25 units @ £2.10	52.50	
5 units @ £2.30	11.50	<b>1</b>
Bonus	100.00	<b>1</b>
	<u>264.00</u>	<b>1</b>

**Sammy**

	£	
Basic	100.00	<b>1 for both</b>
25 units @ £2.10	52.50	<b>1 for both</b>
25 units @ £2.30	57.50	<b>1</b>
50 units @ £2.40	120.00	<b>1</b>
20 units @ £2.50	50.00	<b>1</b>
	<u>380.00</u>	<b>1</b>

**(13 marks)**

(c) FIFO

Date	Purchases	Issues	Units	Unit Cost £	Total £	
1 Oct	Opening inventory		500	4.00	2,000	<b>1</b>
4 Oct		400 x 4.00	(400)	4.00	(1,600)	
			100	4.00	400	<b>1</b>
13 Oct	500 x £4.10		500	4.10	2,050	

19 Oct		600		2,450	1 OF
	100 x 4.00 = 400	(100)	4.00	(400)	1
	200 x 4.10 = 820	(200)	4.10	(820)	1
		300	4.10	1,230	1 OF
25 Oct	400 x £4.15	400	4.15	1,660	1
		700		2,890	1 OF

(8 marks)

Total Maximum Marks for Q8

25 marks

### 3. Recommendations

As a manager it is important to know what techniques to use in particular circumstances. This can be in dealing with labour disputes, in marketing or in finance. In each case you need to know the objectives of each technique. It is helpful to think about financial decisions or problems that need to be made in business and consider what techniques you could use and the objectives of those techniques. By thinking about them in this way, they become tools to use and easier to understand that specific and separate subjects.

Most organisations pay wages and deal with inventory so it is essential to understand the calculations associated with both. Many businesses pay salaries at a fixed rate per month for managers but many employees are still paid by the hour or for the amount of work completed. Friends and relatives in work may be able to help you understand the different approaches in calculating pay from their own experience.

#### Examiner's tips

When thinking about objectives of management or financial accounting, think about the financial statements used in each type of accounting. These will help bring the objectives to mind.

Practice calculating wages using both hourly rates and piece-rate, based on items produced. The task is straightforward arithmetic once you understand how the calculations are worked out

Use of the columnar layout for FIFO and AVCO helps when calculating stock values.

## Question 9

### Question wording

*Learning Outcome x*

#### 1. Comments on learners' performance

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#### 2. Mark scheme

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#### 3. Recommendations

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#### Examiner's tips

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## Question 10

### Question wording

*Learning Outcome x*

#### 1. Comments on learners' performance

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#### 2. Mark scheme

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#### 3. Recommendations

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#### Examiner's tips

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## Question 11

### Question wording

*Learning Outcome x*

#### 1. Comments on learners' performance

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#### 2. Mark scheme

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#### 3. Recommendations

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#### Examiner's tips

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## Question 12

### Question wording

*Learning Outcome x*

#### 1. Comments on learners' performance

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#### 2. Mark scheme

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#### 3. Recommendations

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#### Examiner's tips

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## Conclusions

### **Information for next sitting / Issues found / Difficult questions or topics**

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Candidates should continue to hone their understanding of the topics they seem to find most straightforward such as final accounts and break-even analysis. And, in addition to try to strengthen understanding of the topic they find more difficult such as ratio analysis, the use of journals and double-entry generally, cash budgets and Statements of Cash Flow.