



Introduction to Financial Accounting
NQF
Subject Examiner's Report

Unit Title: Introduction to Financial Accounting
Unit Code: IFA
Session: June 2016

Question 1

(a) The following balances have been obtained from the ledger accounts of Battersby Ltd:

	£
Sales	864,000
Wages	165,000
Rent	14,600
Purchases	422,500
Motor vehicles at cost	64,000
Inventory	96,800
Trade payables	39,860
Trade receivables	91,440
Capital	126,620
Bank	166,540
Heat, Light and Power	9,600

Produce a trial balance from the list of balances above.

(10 marks)

Identify which of the items in the list are assets, which are liabilities and which items in the list will appear in the profit and loss account.

(11 marks)

(b) The total value of assets of Davis is £565,844 and its total liabilities stand at £233,101. Calculate the capital of Davis and demonstrate how the three elements of assets, liabilities and capital are related, using the accounting equation.

(4 marks)

1. Comments on learners' performance

Some learners demonstrated some knowledge and understanding of how the items that should be stated in a trial balance and of how to classify each item.

There was also some comprehension of the role of the accounting equation.

2. Mark scheme

Sales		864,000	p
Wages	165,000		p
Rent	14,600		p
Purchases	422,500		p
Motor vehicles at cost	64,000		a
Inventory	96,800		pa
Trade payables		39,860	l
Trade receivables	91,440		a
Capital		126,620	
Bank	166,540		a
Heat, Light and Power	9,600		p
	1,030,480	1,030,480	

1 mark per item in the correct column, 1 mark per **a(sset), l(iability) or p(&l)**

(b) Assets 565,844 – Liabilities 233,101 = Capital 332,743 (1 for each figure in correct place in equation and 1 for correct calculation)

3. Recommendations

None.

Examiner's tips

Students should ensure that they understand the classification of items and the accounting equation.

Question 2

On 1 May 2016 the bank account of Blue Anchor Ltd had a positive balance of £44,429.27. During the month of May 2016 the following receipts and payments took place:

	£
Received from customer Islington	1620.36
Received from customer Hall	17654.88
Paid supplier Tower Ltd	3946.20
Cash Purchases	138.96
Cash Sales	796.56
Paid supplier Jax Ltd	14760.60
Received from customer Naylor	4279.08
Cash Sales	2013.84
Bank Charges	228.00
Direct debit for rent	12160.00

- (a) Draw up an analysed cash book and enter the opening balance and the transactions listed. **(11 marks)**
- (b) Balance off the cashbook and calculate the closing balance. Demonstrate clearly whether this is a positive (debit) balance or negative (credit) balance. **(2 marks)**
- (c) Identify the postings required to post the cashbook totals to the nominal ledger. State whether each is a debit or a credit. **(8 marks)**
- (d) There is a balance in the suspense account and the following errors have come to light:
 Cash sales £180 have been credited to the bank account and posted correctly to sales and VAT.
 Purchase invoice for £355.00 plus VAT has not been received.
 Vehicle repair for £480 plus VAT has been posted to cost of vehicles.
 Owners drawings of £355 have been posted to both of the correct accounts as £535.
 State whether each error outlined above will or will not be disclosed by a trial balance. **(4 marks)**

1. Comments on learners' performance

Of the students who responded to this requirement, most demonstrated the knowledge and understanding that was needed to prepare the required accounting records.

2. Mark scheme

(a) (b) (c)

Receipts				Detail
Sales	VAT	Sales ledger control	Total	
			44,429.27	o/bal
		1,620.36	1,620.36	Received from customer Islington
		17,654.88	17,654.88	Received from Hall
				Paid supplier Tower Ltd
				Cash Purchases
663.80	132.76		796.56	Cash Sales
				Paid supplier Jax Ltd
		4,279.08	4,279.08	Received from Naylor
1,678.20	335.64		2,013.84	Cash Sales
				Bank Charges
				Paid wages
				Balance c/d
2,342.00	468.40	23,554.32	70,793.99	

CR CR CR
 Sales VAT Sales ledger control

Detail	Payments					
	Total	Purchase ledger control	VAT	Purchases	Wages	Bank charges
o/bal						
Received from customer Islington						
Received from Hall						
Paid supplier Tower Ltd	3,946.20	3,946.20				
Cash Purchases	138.96		23.16	115.80		
Cash Sales						
Paid supplier Jax Ltd	14,760.60	14,760.60				
Received from Naylor						
Cash Sales						
Bank Charges	228.00					228.00
Paid wages	12,160.00				12,160.00	
Balance c/d	39,560.23					
	70,793.99	18,706.80	23.16	115.80	12,160.00	228.00
		DR	DR	DR	DR	DR
		Purchase ledger control	VAT	Purchases	Wages	Bank charges

1 mark per item posted correctly including analysis columns

1 mark per correct account posting including correct dr/cr

(d)

- Cash sales £180 have been credited to the bank account and posted correctly to sales and VAT. **(yes)**
- Purchase invoice for £355.00 plus VAT has not been received. **(no)**
- Vehicle repair for £480 plus VAT has been posted to cost of vehicles. **(no)**
- Owners drawings of £355 have been posted to both of the correct accounts as £535 **(no)**

3. Recommendations

None.

Examiner's tips

Students should ensure that they are able to record transactions in accounting records.

Question 3

The following credit transactions were recorded by Mackintosh Ltd in the month of May 2016:

3 May 2016	Sale to Burnish Brothers	£2,480.00 excluding VAT
8 May 2016	Sale to Chateline Ltd	£764.60 excluding VAT
14 May 2016	Sales return from Mahoney & Co	£762.00 excluding VAT
21 May 2016	Sale to Didion Ltd	£1,259.30 excluding VAT

The current rate of VAT is 20%.

Enter the transactions outlined above in the sales day book / sales returns day book using the following format:

Sales Day Book				
Date	Detail	Total	VAT	Nett

(8 marks)

Further information:

The following credit purchases and purchase returns took place in May 2016:

1 May 2016	Purchase from Paddington plc	£2,100.36 including VAT
7 May 2016	Purchase from Hector Ltd	£1,023.84 including VAT
15 May 2016	Purchase return to Hector Ltd	£92.28 including VAT
23 May 2016	Purchase from Peterson Ltd	£374.52 including VAT

Enter the transactions outlined above in the purchase day book / purchase returns day book using the following format:

Purchases Day Book				
Date	Detail	Total	VAT	Nett

(8 marks)

In addition to the above, the business has made cash sales for the month of £12,840 including VAT. The balance on the VAT account as at 1 May 2016 is £17,008 Credit. Draw up the VAT account and make the necessary entries in respect of sales, sales returns, purchases, purchase returns and cash sales for the month of May 2016.

(5 marks)

Balance off the VAT account as at 31 May 2016 showing clearly whether the closing balance is a credit balance or a debit balance.

(2 marks)

Explain how and where the VAT balance calculated in part (d) of your answer would appear in the final accounts of the business.

(2 marks)

1. Comments on learners' performance

Again, of the limited number of students who engaged with this requirement, most demonstrated the comprehension and application necessary to prepare the relevant accounting records and to explain the treatment of the relevant items.

2. Mark scheme

(a)

Sales Day Book				
Date	Detail	Total	VAT	Nett
03/05/2016	Burnish Brothers	2,976.00	496.00	2,480.00
08/05/2016	Chateline Ltd	917.52	152.92	764.60
21/05/2016	Didion Ltd	1,511.16	251.86	1,259.30

Sales Returns Day Book				
Date	Detail	Total	VAT	Nett
14/05/2016	Mahoney & Co	914.40	152.40	762.00

1 mark for each nett and each VAT figure

(b)

Purchases Day Book				
Date	Detail	Total	VAT	Nett
01/05/2016	Paddington plc	2,100.36	350.06	1,750.30
07/05/2016	Hector Ltd	1,023.84	170.64	853.20
23/05/2016	Peterson Ltd	374.52	62.42	312.10

Purchase Returns Day Book				
Date	Detail	Total	VAT	Nett
15/05/2016	Hector Ltd	92.28	15.38	76.90

(c)

VAT			
Detail	£	Detail	£
SRDB	152.40	SDB	900.78
PDB	583.12	PRDB	15.38
Bal			
c/d	<u>2,320.64</u>	CB	<u>2,140.00</u>
	<u>3,056.16</u>		<u>3,056.16</u>

(d) credit (1) 2,320.64 (1)

(e) a current liability (1) on the balance sheet (1)

3. Recommendations

None.

Examiner's tips

Ensure that an ability to explain the treatment of items as well as record financial transactions is developed appropriately.

Question 4

A trainee bookkeeper has extracted the following balances on 1 May 2016 from the sales ledger control account and the sales ledger of Heron Ltd:

Sales ledger control 19,361.45 Dr

Customer accounts:

Linwood Ltd 3,247.55 Dr

Bunbury 95.00 Dr

Crescent & Co 12,232.70 Dr

Rochford Ltd 3,976.20 Dr

Enter the opening balances into the sales ledger control and the sales ledger accounts. **(5 marks)**

Further information:

Below are the sales day book, sales returns day book and the cashbook receipts for Heron Ltd for the month of May 2016:

Sales Day Book

Date	Detail	Total	VAT	Nett
01/05/2016	Bunbury	9,180.48	1,530.08	7,650.40
05/05/2016	Crescent & Co	10,012.92	1,668.82	8,344.10
22/05/2016	Linwood	2,266.08	377.68	1,888.40

Sales Returns Day Book

Date	Detail	Total	VAT	Nett
14/05/2016	Rochford	78.00	13.00	65.00

Cash Book - receipts side

Date	Detail	Total	Sales	VAT	Sales ledger control
28/05/2016	Rochford	3,898.20			3,898.20
29/05/2016	Bunbury	9,085.48			9,085.48
30/05/2016	Crescent & Co	12,232.70			12,232.70
30/05/2016	Linwood	3,247.55			5,513.63

Enter the transactions from the sales day book, sales returns day book and cash book into the relevant ledger accounts. **(8 marks)**

Balance off each account and reconcile the sales ledger control account against the sales ledger. **(6 marks)**

Suggest one reason why the balance on the sales ledger control account does not agree with the total of the sales ledger listing. **(2 marks)**

Identify possible consequences of this error if it is not corrected. **(4 marks)**

1. Comments on learners' performance

Good responses reflected an ability to record the relevant transactions and to interpret the results of these entries. Better responses reflected an ability to engage with the key principles of the use of control accounts and the application of knowledge in this context.

2. Mark scheme

Linwood Ltd

Date	Detail	£	Date	Detail	£
01/05/2016	Bal b/d	3,247.55	30/05/2016	Bank	3,247.55
31/05/2016	SDB	2,266.08	31/05/2016	Bal c/d	2,266.08

Bunbury

Date	Detail	£	Date	Detail	£
01/05/2016	Bal b/d	95.00	29/05/2016	Bank	9,085.48
31/05/2016	SDB	9,180.48	31/05/2016	Bal c/d	190.00

Crescent & Co

Date	Detail	£	Date	Detail	£
01/05/2016	Bal b/d	12,232.70	30/05/2016	Bank	12,232.70
31/05/2016	SDB	10,012.92	31/05/2016	Bal c/d	10,012.92

Rochford Ltd

Date	Detail	£	Date	Detail	£
01/05/2016	Bal b/d	3,976.20	28/05/2016	SRDB	78.00
			31/05/2016	Bank	3,898.20

Sales ledger control

Date	Detail	£	Date	Detail	£
01/05/2016	Bal b/d	19,361.45	29/05/2016	Bank	28,463.93
31/05/2016	SDB	21,381.48	31/05/2016	Bal c/d	12,279.00

Listing 12,469.00 – Control account 12,279.00 = 190.00

(d) The opening balance for Bunbury (1) should be shown as a credit (1)

(e)

- Incorrect information sent to customer
- customer unhappy
- payments harder to reconcile
- balance sheet incorrect (1 each, others possible)

3. Recommendations

Delineate future requirements to ensure clarity and engagement with precise topic area.

Examiner's tips

Engage with the requirement and focus on the precise topic area in any discussion and explanation.

Question 5

The year-end of Archibold Ltd takes place on 31 May 2016.

At 1 June 2015 the following accruals and prepayments were recorded:

Rent prepayment	£400.00
Telephone prepayment	£77.00
Wages accrual	£550.00
Electricity accrual	£124.00

- (a) Draw up the appropriate ledger accounts for the above transactions and enter the opening balances as at 1 June 2015. **(4 marks)**

Further Information:

It has been identified that the following payments were made during the year ending 31 May 2016:

Rent	£5,200.00
Telephone	£2,106.00
Wages	£14,773.00
Electricity	£5,200.00

- (b) Enter the payments for the year in the appropriate ledger accounts. **(4 marks)**

Further Information:

As at 31 May 2016 the following amounts are accrued / prepaid:

Rent prepaid	£320.00
Telephone accrued	£42.00
Wages accrued	£620.00
Electricity prepaid	£4,944.00

- (c) Make the necessary entries for the above accruals / prepayments in the ledger accounts and also draw up and update the appropriate accruals and prepayments accounts. **(8 marks)**
- (d) Balance off each ledger account and identify the amounts to be posted to the profit and loss account for the year ended 31 May 2016. **(4 marks)**
- (e) Balance off the accruals and prepayments ledger accounts and show the amounts to be shown in the balance sheet as at 31 May 2016. **(4 marks)**
- (f) Identify the fundamental accounting concept that requires accruals and prepayments to be recognised at the year-end. **(1 mark)**

1. Comments on learners' performance

An area of strength for some students. There was some sound understanding of some of the required adjustments. There was also some evidence of an ability to understanding the rationale for and consequences of each of the adjustments.

2. Mark scheme

(a) (b) (c) (d) (e)

Rent					
Date	Detail	£	Date	Detail	£
01/06/2015	Bal b/d	400.00 (1)	31/05/2016	P&L	5,280.00 (1)
31/05/2016	Bank	5,200.00 (1)	31/05/2016	Prepayment	320.00 (1)
		<u>5,600.00</u>			<u>5,600.00</u>

Telephone					
Date	Detail	£	Date	Detail	£
01/06/2015	Bal b/d	77.00 (1)	31/05/2016	P&L	2,225.00 (1)
31/05/2016	Bank	2,106.00 (1)			
31/05/2016	Accrual	42.00 (1)			
		<u>2,225.00</u>			<u>2,225.00</u>

Wages					
Date	Detail	£	Date	Detail	£
31/05/2016	Bank	14,773.00 (1)	01/06/2015	Bal b/d	550.00 (1)
31/05/2016	Accrual	620.00 (1)	31/05/2016	P&L	14,843.00 (1)
		<u>15,393.00</u>			<u>15,393.00</u>

Electricity					
Date	Detail	£	Date	Detail	£
31/05/2016	Bank	5,200.00 (1)	01/06/2015	Bal b/d	124.00 (1)
			31/05/2016	P&L	4,944.00 (1)
			31/05/2016	Prepayment	132.00 (1)
		<u>5,200.00</u>			<u>5,200.00</u>

Prepayments					
Date	Detail	£	Date	Detail	£
31/05/2016	Rent	320.00 (1)	31/05/2016	Bal c/d	452.00 (2)
31/05/2016	Electricity	132.00 (1)			

Accruals					
Date	Detail	£	Date	Detail	£
31/05/2016	Bal c/d	662.00 (2)	31/05/2016	Telephone	42.00 (1)
			31/05/2016	Wages	620.00 (1)

(f) Accruals or matching concept

3. Recommendations

None.

Examiner's tips

Ensure that an understanding of period end adjustments is developed.

Question 6

The following balances are present in the ledger accounts of Palmerston Ltd as at 1 June 2016:

Motor vehicles at cost	£45,800
MV accumulated depreciation	£27,342
Plant & Machinery at cost	£145,000
Plant & Machinery accumulated depreciation	£43,500

Company policy is to depreciate motor vehicles at 45% on the reducing balance basis and to depreciate land and buildings at 10% on a straight line basis. A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

- (a) Draw up the appropriate ledger accounts and enter the opening balances. **(4 marks)**
- (b) On 1 January 2016 the company purchased an additional motor vehicle at a cost of £14,800. Make the necessary entries in the ledger accounts to record the acquisition of the new motor vehicle. **(1 mark)**
- (c) Calculate the depreciation charges for the year and make the necessary entries in the ledger accounts. Draw up any additional ledger accounts that are needed. **(7 marks)**
- (d) Identify three different examples of a fixed asset which might depreciate and explain why the asset will depreciate. **(9 marks)**
- (e) Identify an example of an asset that usually does not depreciate. **(2 marks)**
- (f) Identify the two fundamental accounting concepts that require a company to account for depreciation. **(2 marks)**

1. Comments on learners' performance

Stronger responses reflected an ability to prepare the appropriate ledger accounts and to calculate depreciation and to account for non-current assets. Weaker responses reflected a lack of understanding of the alternative methods of calculation and their rationale.

2. Mark scheme

(a) (b) (c)

Motor vehicles at cost

Date	Detail	£	Date	Detail	£
01/06/2015	Bal b/d	45,800 (1)			
01/01/2016	Bank	14,800 (1)			

Motor vehicles accumulated depreciation

Date	Detail	£	Date	Detail	£
			01/06/2015	Bal b/d	27,342 (1)
			31/05/2016	Depreciation	18,964 (3)

Plant and Machinery at cost

Date	Detail	£	Date	Detail	£
01/06/2015	Bal b/d	145,000 (1)			

Plant and Machinery accumulated depreciation

Date	Detail	£	Date	Detail	£
			01/06/2015	Bal b/d	43,500 (1)
			31/05/2016	Depreciation	14,500 (2)

Depreciation expense

Date	Detail	£	Date	Detail	£
31/05/2016	Motor vehicles	18,964 (1)			
31/05/2016	Land and buildings	14,500 (1)			

(d) Wear and tear – the asset no longer is cost effective to maintain – a car
Obsolescence – the asset is no longer needed – CRT television manufacturing equipment
Exhaustion – the asset has been used up – a coal mine no longer has any coal left to be mined

(e) Land (1) because it appreciates in value (1)

(f) Accruals and Prudence

3. Recommendations

None.

Examiner's tips

Develop an understanding of alternative approaches to the calculation of depreciation and the rationale for each of these methods.

Question 7

The following balances have been extracted for the ledger accounts of Pearce, a sole trader as at 31 May 2016:

	£
Bank	1,450
Capital	15,655
Carriage inwards	227
Drawings	45,500
Heat, Light and Power	7,309
Inventory	8,326
Loan	10,000
Motor vehicle	18,600
Motor vehicle depreciation	12,974
Purchases	96,034
Rent	8,550
Sales	173,007
Sales returns	956
Stationery	532
Trade payables	5,902
Trade receivables	11,200
VAT payable	4,546
Wages	23,400

Closing stock has been valued at £9,350.

- (a) Produce a Trading, Profit and Loss account for Pearce. **(10 marks)**
- (b) Produce a Balance Sheet for Pearce. **(11 marks)**
- (c) Explain how maintaining a general ledger makes it easier for a company to produce final accounts. **(4 marks)**

1. Comments on learners' performance

Of the students that responded to this requirements, there was some evidence of understanding. Explanations of the role of the general ledger were, in the main, well developed.

2. Mark scheme

(a) (b)

Sales	173007			
less sales returns	<u>956</u>			
		172051		2
Opening inventory	8326			
Purchases	96034			
Carriage inwards	227			
Closing inventory	9350			
		<u>95237</u>		
GP		76814		4
Heat, Light and Power	7309			
Rent	8550			
Stationery	532			
Wages	23400			
		<u>39791</u>		
		<u>37023</u>		4
Motor vehicle	18600	12974	5626	2
Inventory	9350			
Trade receivables	11200			
Bank	<u>1450</u>			
		22000		
Trade payables	5902			
VAT payable	<u>4546</u>			
		<u>10448</u>		
			11552	5
Loan			10000	1
			<u>7178</u>	
Capital	15655			
Drawings	45500			
Net profit	37023			
		<u>7178</u>		3

(c) All figures summarised (1) so don't have to work through lots of data (1).
Others can do preparatory work (1) without seeing the whole picture (1)
Other answers possible, 1 mark each, maximum 4

3. Recommendations

None.

Examiner's tips

Take care to engage with any requirement: develop any explanation and interpretation to a sufficient depth.

Question 8

Your client has surplus funds which he wishes to invest in a company. The following information has been compiled about two possible alternative investments:

	A Ltd	B Ltd
Sales	1,502,000	5,603,000
Cost of sales	826,100	3,641,950
Expenses	450,600	1,344,720
Fixed assets	600,000	4,500,000
Inventory	187,300	434,619
Trade receivables (debtors)	172,833	460,521
Bank	14,467	17,560
Trade payables (creditors)	192,379	349,228
Other payables	119,787	85,391
Long term liabilities	250,000	1,200,000

There are no other assets or liabilities.

(a) Calculate the following for A Ltd and B Ltd:

- (i) Gross Profit (£)
- (ii) Gross Profit %
- (iii) Net Profit (£)
- (iv) Net Profit %
- (v) Current ratio
- (vi) Acid test ratio
- (vii) Debtor days
- (viii) Creditor days

(16 marks)

(b) On the basis of your calculations in part a), make a recommendation to your client which is the better investment option, A Ltd or B Ltd. Give reasons for your recommendation.

(5 marks)

(c) Explain how ratio analysis can help in making investment decisions.

(2 marks)

(d) Identify other factors relevant to the investment decision that cannot be learned from ratio analysis.

(2 marks)

1. Comments on learners' performance

Some students demonstrated an ability to calculate some of the required ratios. As in the responses to much of the other requirements, there was considerable scope for development in the explanation and interpretation of the results.

2. Mark scheme

(a)	A	%	B	%
Sales	1502000		5603000	
Cost of sales	826100		3641950	
GP	675900	45	1961050	35
Exp	450600		1344720	
NP	225300	15	616330	11
Current	374,600 / 312,167	1.2	912700 / 434,619	2.1
Acid test	374,600-187,300 / 312,167	0.6	912700-391,157 / 434,619	1.1
Debtors	172833 x 365 / 1,502,000	42	460521 x 365 / 5,603,000	30
Creditors	192379 x 365 / 826,100	85	349228 x 365 / 3,641,950	35

(1 mark each figure in bold)

(b) A generates higher gross profit %(1) and net profit %(1)

B has stronger current (1) and acid test (1) ratios

B has better control of debtors (1)

A could have problems if suppliers are not paid quicker (1)

B is the safer option (1) (max 5, others possible)

(c) Enables different size companies (1) to be compared (1).

Ratios easier to understand than pages of detail (1) (max 2 others possible)

(d) Product lifecycle (1) market situation (1) future competition (1)

(max 2 others possible)

3. Recommendations

None.

Examiner's tips

Ensure that any explanation and interpretation is developed to a sufficient depth.