



Introduction to Financial Accounting

QCF

Subject Examiner's Report

Unit Title: 6.1 Introduction to Financial Accounting

Unit Code: IFA

Session: December 2015

Question 1

(a) Prepare a trial balance from the above balances. **(8 marks)**

(b) Calculate the missing drawings figure. **(2 marks)**

(c) Identify which items will appear in:

(i) The profit and loss account

(ii) The balance sheet

(9 marks)

(d) Identify which of the financial statements provide each of the following types of information:

(i) The financial performance of a business

(ii) The value of a business

(iii) The liquidity of a business

(iv) The financial adaptability of the business

1. Comments on learners' performance

Some learners demonstrated some knowledge and understanding of how the items that should be included in each financial statement. There was also some comprehension of the role of each financial statements, although this was somewhat limited..

2. Mark scheme

	(a)		(b)
	DR	CR	
Sales		619993	P
Purchases	349512		P
Stationery	11604		P
Inventory	77228		B
Motor expenses	18510		P
Wages and salaries	88195		P
Heat, light and power	14410		P
Sales ledger control	66294		B
Purchase ledger control		71308	B
Carriage inwards	2444		P
Carriage outwards	560		P
Motor vehicles	36400		B
Motor vehicles accumulated depreciation		19940	B
Rent paid	13522		P
Capital		54319	B
Bank (overdrawn)		17704	B
Drawings	104585		B

½ mark for each correct DR/CR ½ for each B/P

1 mark for each of amount, DR and B

The financial performance is shown by the profit and loss account (1)

The value is shown by the balance sheet (1)

The liquidity is shown by current assets and current liabilities (1) on the balance sheet (1)

The financial adaptability is shown by the equity and non-current liabilities (1) on the balance sheet (1)

3. Recommendations

None.

Examiner's tips

Students should ensure that they understand the role of each financial statement and the information that can be obtained from each.

Question 2

- Prepare the required ledger for Horsfall and post the above items. **(8 marks)**
(b) Calculate Horsfall's capital and prepare a ledger account for this capital. **(2 marks)**
(c) Enter the transactions for November 2015 into the appropriate ledger accounts. **(6 marks)**
(d) Calculate the balance for all ledger accounts and present a trial balance for Horsfall as at 30 November 2015. **(5 marks)**
(e) Write a memo to Horsfall explaining why it is important to keep accurate accounting records. **(4 marks)**

1. Comments on learners' performance

Of the limited number of students who responded to this requirement, few demonstrated the knowledge and understanding that was needed to prepare the required ledger accounts.

2. Mark scheme

Sales	
	14350 (1)
	3250 (½)

Purchases	
3440 (1)	
882 (½)	
326 (1)	

Van	
12500 (1)	

Loan	
	5000 (1)

Bank	
2823 (1)	55 (½)
3250 (½)	882 (½)
	240 (½)

Tools	
1850 (1)	

Rent	
1200 (1)	
240 (½)	

Motor expenses	
725 (1)	
55 (½)	

Paint and Paper	
	326 (1)

1 mark for each posting part (a) side and value must both be correct

(b) $3440 + 12500 + 2823 + 1850 + 1200 + 725 - 14350 - 5000 = 3188$

Capital	
	3188

1 mark for amount 1 mark for posting as CR

(c) ½ mark for each cash transaction posting
1 mark for each credit posting

(d)

	DR	CR
Sales		17,600
Purchases	4,648	
Motor van	12500	
Bank loan		5000
Bank	4896	
Tools	1850	
Rent costs	1440	
Motor expenses	780	
Capital		3188
Paint and Paper Ltd		326
	26,114	26,114

½ mark for each account balance

(e) Memo to: Horsfall
From: Student
Date: xx/06/2105
Subject: accurate accounts

Accurate accounts need to be kept:

- to enable profit to be calculated correctly
- to calculate value of business
- to satisfy HMRC
- to obtain finance from lenders

1 mark for layout, headers etc
1mark per valid point max 3

3. Recommendations

None.

Examiner's tips

Students should ensure that they are able to record transactions in ledger accounts.

Question 3

- (a) Prepare the VAT account for Roberts and make the necessary entries in respect of the above transactions. **(12 marks)**
- (b) Calculate the balance of the VAT account and calculate the balance due to or from HMRC. **(4 marks)**
- (c) Explain how the balance on the VAT account will appear in the final accounts and what action Roberts must take in respect of this. **(6 marks)**
- (d) Explain what is meant by the term 'the accounting equation'. **(3 marks)**

1. Comments on learners' performance

Again, of the limited number of students who engaged with this requirement, few demonstrated the comprehension and application necessary to prepare the relevant account and to explain the relevant concepts..

2. Mark scheme

VAT					
September	credit purchases	17,643.00	September	credit sales standard rate	44,250.00
October	credit purchases	18,882.00	September	cash sales	82.50
November	credit purchases	15,986.60	October	credit sales standard rate	65,664.40
			October	cash sales	65.00
			November	credit sales standard rate	43,881.40
bal c/d		101522.70	November	cash sales	91.00
		154,034.30			154,034.30

(1 mark for each of 9 correct figures and 1 mark each for NOT including the 3 zero rated items)
Must be right amount and right side to get the mark.

- (b) 1 mark each for showing correct total each side
1 mark for correct balance c/d
1 mark for showing balance c/d in the correct place

- (c) The balance owing will appear as a current (1) liability (1) on the balance sheet (1)

Horsfall must pay (1) this amount to HMRC (1) within one month and 7 days (1)31 days of the end of the accounting period i.e. by 7 January 2016

- (d) Assets (1) – Liabilities (1) = Capital (1) or any correct variation of this.

Marks only awarded if relationships are correct, not for simply listing elements

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

The following credit sales invoices were produced by Nichol Ltd on 23 November 2015:

Astle	£256.00 + VAT
Kinnear	£91.50 + VAT
Wile	£801.18 + VAT
Garshowitz	£388.75 + VAT

- (a) Record these invoices in the sales day book using the following layout:

Date	Name	Total	VAT	Net

(4 marks)

- (b) Record the following four invoices in the analysed purchase day book using the layout shown below.

25/11 Baker Estates	(Building repairs)	£240	inc VAT
28/11 Lane Office supplies	(Stationery)	£96	inc VAT
28/11 Freeman Ltd	(Goods for resale)	£372	inc VAT
29/11 Sorley Garage	(Motor fuel)	£48	inc VAT

Date	Name	Total	VAT	Purchases	Motor expenses	Admin expenses	Premises expenses

(4 marks)

- (c) List the debits and credits to be made from the purchase day book to the nominal ledger.

(6 marks)

- (d) At 1 December 2014 the balance on the purchase ledger control account was £27,305.26. Purchases during the year totalled £117,681.19 and payments made to suppliers amounted to £121,948.39. Calculate the balance on the purchase ledger control account as at 30 November 2015. (4 marks)

- (e) On 30 November 2015 the following supplier balances are present in the purchase ledger accounts:

	£
Hopkinson	11,243.77
Garbas	228.22
Bolitho	4,804.56
Maltby	7,217.95

Calculate the total of the purchase ledger listing and compare this with the balance on the purchase ledger control account.

(3 marks)

- (f) Suggest possible reasons for any differences you find between the two figures calculated in (d) and (e).

(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

(a)

Date	Name	Total	VAT	Net
23-Nov	Astle	307.20	51.20 (1)	256.00
23-Nov	Kinnear	109.80	18.30 (1)	91.50
23-Nov	Wile	961.42	160.24 (1)	801.18
23-Nov	Garshowitz	466.50	77.75 (1)	388.75

(b)

Date	Name	Total	VAT	Purchases	Motor expenses	Admin expenses	Premises expenses
25/11	Building repairs	240.00	40.00 (1)				200.00
28/11	Stationery	96.00	16.00 (1)			80.00	
28/11	Purchases	372.00	62.00 (1)	310.00			
29/11	Motor fuel	48.00	8.00 (1)		40.00		

(c)

Cr P/L control	756.00 (1)
Dr VAT	126.00 (1)
Dr Purchases	310.00 (1)
Dr Motor exp	40.00 (1)
Dr Admin exp	80.00 (1)
Dr Premises exp	200.00 (1)

Both Dr/Cr and amount must be correct to get the mark

(d)

27,305.26	11,243.77
+ 117,681.19 (1)	+ 228.22
- 121,948.39 (1)	+ 4,804.56
= 23038.06 (1)	+ 7,217.95
CR (1)	= 23,494.50 (1)

(e)

$$23494.50 - 23038.06 = 456.44 (1) \text{ Higher (1)}$$

- (f) Invoice omitted from control account
Credit note omitted from supplier account
Return omitted from supplier account
Addition error in supplier listing
Garbas balance is a debit rather than credit balance
(1 mark per valid point to maximum of 4)

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

MacCausland is preparing his accounts for the year ended 30 November 2015.

From analysis of his bank statements the following items were identified, which have been paid or received:

	£
Electricity	12,800.00
Rent receivable	10,270.00
Wages paid	156,505.00
Motor expenses	3,241.00

- (a) Prepare ledger accounts for each of these items and record the above payments and receipts. **(4 marks)**
- (b) MacCausland also informs you that:
- the most recent electricity bill covered the period 1 August 2015 to 31 October 2015 and amounted to £2,700.00
 - wages of £750.00 are currently owed to staff and this amount has not yet been entered into the accounts
 - of the rent received £2,370.00 relates to the period 1 November 2015 to 31 January 2016
 - motor expenses includes £180 road tax which covers the period 1 September 2015 to 31 August 2016
- Required:**
Calculate the year-end adjustments needed in respect of each of the four items listed above. Show full workings and identify the amount which will be either accrued or prepaid in each case. **(4 marks)**
- (c) Prepare the journal postings needed to record the four year-end adjustments calculated in (b). Include a suitable narrative in each case. **(6 marks)**
- (d) Prepare further ledger accounts for:
- accruals
 - prepayments
 - prepaid income
- and post the journals prepared in (c). **(4 marks)**
- (e) Calculate the amounts to be transferred to the profit and loss account and enter these into the ledger accounts accordingly. **(4 marks)**
- (f) Explain why it is necessary to make year-end adjustments for accruals and prepayments. Your answer should make reference to the appropriate fundamental accounting concept. **(3 marks)**

1. Comments on learners' performance

An area of strength for some students. There was some sound understanding of some of the required year end 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) 4 (d) 4 and (e) 4

Electricity					
30/11/15	Bank	12,800 (1)	30/11/15	P&L	13,700 (1)
30/11/15	Accruals	900 (½)			

Wages					
30/11/15	Bank	156,505 (1)	30/11/15	P&L	157,255 (1)
30/11/15	Accruals	750 (½)			

Rent receivable

Question 6

(a) Prepare ledger accounts for the following and record the opening balances where applicable:

- (i) Buildings at cost
- (ii) Buildings accumulated depreciation
- (iii) Motor vehicles at cost
- (iv) Motor vehicles accumulated depreciation
- (v) Plant and machinery at cost
- (vi) Plant and machinery accumulated depreciation
- (vii) Depreciation expense

(6 marks)

(b) Calculate the depreciation for the year for each class of non-current assets and update the ledger accounts accordingly. (6 marks)

(c) Calculate the net book value as at 30 November 2015 of:

- (i) Buildings at cost (2 marks)
- (ii) Motor vehicles at cost (2 marks)
- (iii) Plant and machinery (2 marks)

(d) Prepare the journal required to close off the depreciation expense account at the year-end 30 November 2015. (2 marks)

(e) Explain why it is necessary to calculate and record depreciation. Your answer should include an explanation of the difference between straight line and reducing balance depreciation. (5 marks)

1. Comments on learners' performance

Stronger responses reflected an ability 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) and (b)

Buildings - cost

30/11/15	Bal b/d	5,000,000	
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Buildings – accumulated depreciation

	30/11/15	Bal b/d	1,600,000
	30/11/15	Depreciation	100,000

Motor vehicles - cost

30/11/15	Bal b/d	800,000	
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Motor vehicles - accumulated depreciation

	30/11/15	Bal b/d	320,000
	30/11/15	Depreciation	216,000

Plant and machinery - cost

30/11/15	Bal b/d	1,250,000	
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Plant and machinery - accumulated depreciation

	30/11/15	Bal b/d	562,500
	30/11/15	Depreciation	187,500

Depreciation expense

30/11/15	B depreciation	100,000
30/11/15	MV depreciation	216,000
30/11/15	P&M depreciation	187,500

1 mark for each posting, 12 in total

Workings for (b)

$$5,000,000 \times 2\% = 100,000$$

$$800,000 - 320,000 = 480,000 \quad \times 45\% = 216,000$$

$$1,250,000 \times 15\% = 187,500$$

(c)	$5,000,000 - 1,600,000 - 100,000$	$= 3,300,000$ (2)
	$800,000 - 320,000 - 216,000$	$= 264,000$ (2)
	$1,250,000 - 562,500 - 187,500$	$= 500,000$ (2)

(d)	Dr Profit and loss	503,500 (1)
	Cr Depreciation	503,500 (1)

- (e) To match cost of asset to use of asset
In accordance with accruals / matching concept
In accordance with concept of prudence
To account for wearing out of asset
To reflect loss of value of asset over time
To show true and fair value of asset
To adjust profit in respect of loss of value

(1 mark each valid point to a maximum of 5)

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

Ibbotson is a landscape gardener and his cash book for the month of November 2015 is as follows:

- (a) Explain why the opening balance in the cash book is different to the opening balance on the bank statement. **(4 marks)**
- (b) Produce a statement reconciling the opening balance in the cash book with the opening balance on the bank statement. **(3 marks)**
- (c) Update the cash book as necessary in respect of items listed on the bank statement. **(4 marks)**
- (d) Calculate the closing balance on the updated cash book. **(4 marks)**
- (e) Produce a bank reconciliation statement for Ibbotson as at 30 November 2015. **(3 marks)**
- (f) Ibbotson tells you that he has decided he does not need to pay an accountant to tell him how much profit he has made. He feels that all he needs to do is calculate the increase or decrease in his bank account each month and this will tell him his profit or loss. Write a short report to Ibbotson explaining why this does not give an accurate calculation of profit for the month. Give at least two reasons why this is so. **(7 marks)**

1. Comments on learners' performance

Of the students that responded to this requirements, there was some evidence of understanding. However, this was rather limited. Limitations were particularly evident in respect of meaning and interpretation.

2. Mark scheme

(a) Cheque 010150 was entered in the cashbook (1) during October (1) but did not appear on the bank statement (1) until the November statement (1)

(b)	Bank statement opening balance	10,579.88 (1)
	Less cheque 010150	15.88 (1)
=	Cashbook opening balance	10,564.00 (1)

						Cash Book
	01-Nov	Bal b/d	8,247.31	04-Nov	Cheque 010151	844.20
	06-Nov	Counter credit	1,280.15	05-Nov	Cheque 010152	227.11
	13-Nov	Counter credit	992.94	18-Nov	Cheque 010153	2,301.27
	20-Nov	Counter credit	1,544.56	26-Nov	Drawings	1,200.00
	27-Nov	Counter credit	1,112.50	28-Nov	Cheque 010154	15.88
(c)	23-Nov	BACS Wiltshire CC	2,000.00 (2)	28-Nov	Bank charges	25.00 (2)
				(d)	bal c/d	10,564.00 (4)
			15,177.46			15,177.46

(e)	Bank statement closing balance	10,062.61 (1)
	Less cheque 010150	1,755.30 (1)
=	Cashbook opening balance	8,247.31 (1)

(f) Report to: Ibbotson

From : Student

Date: 1 December 2015

Re: Profit vs Cash

(2 marks for layout)

Profit is calculated on the accruals basis.

Expenses and revenues are matched to the period to which they relate rather than to the one in which payment is made.

Sales to debtors affect profit but may not be paid until later

Credit purchases affect profit but are not paid until later

Receipts from debtors may relate to sales from a prior period

Likewise payments to creditors
Drawings are not taken into account when calculating profit
Capital introduced affects bank but not profit
(1 mark per valid point to maximum of 5)

3. Recommendations

None.

Examiner's tips

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

Question 8

(a) Calculate to two decimal places the following ratios for Pulford Ltd and Hutchison Ltd for the years ended 30 November 2015 and 30 November 2014:

(i) Gross Profit (2 marks)
(ii) Net Profit (2 marks)

(b) Calculate to two decimal places the following ratios for Pulford Ltd and Hutchison Ltd as at 30 November 2014 and 30 November 2015:

(i) Receivables days (2 marks)
(ii) Payables days (2 marks)
(iii) Current ratio (2 marks)
(iv) Acid test ratio (2 marks)

(c) Prepare a briefing note for Gibson in which you:

(i) Explain how ratio analysis can help Gibson make an informed decision. (2 marks)
(ii) Advise Gibson on which company you feel is the better investment. Give reasons for your recommendation. (5 marks)
(iii) Explain why ratio analysis alone does not provide sufficient information on which to make a decision. (2 marks)
(iv) Identify other factors you feel are relevant to the decision in this case. (4 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) 2015	Pulford	Hutchison
GP	34.60%	35.80%
NP	12.70%	11.00%
2014	Pulford	Hutchison
GP	31.25%	38.09%
NP	7.50%	16.86%

(½ mark for each correct ratio)

(b)

2015	P	H	2014	P	H
rd	36.50 days	43.80 days	rd	41.06 days	41.97 days
pd	53.02 days	98.55 days	pd	39.82 days	88.64 days
cr	2.89:1	1.15:1	cr	3.67:1	1.63:1
at	2.37:1	0.81:1	at	2.83:1	1.27:1

(½ mark for each correct ratio)

(c) Report to: Gibson
From: Student
Date: 1 December 2015
Subject: Investment options

(i) Ratio analysis provides summarised information in a form that is easy to understand. (1)

Different sizes of company can be compared on a like for like basis even though the actual data from which the ratios are calculated is very different. (1)

(ii) In this case Pulford is the better option for a number of reasons: (1)

(iii) Gross profit margin is very similar and has improved whereas Hutchison has declined.

Net profit margin is slightly higher and improving. Again Hutchison has declined.

Receivables days is lower showing better credit control whilst payable days is shorter which will lead to better relations with suppliers.

Both current and quick (acid test) ratios are better though they have declined slightly.

Both are still good and show the company is well able to meet its commitments as they fall due.

Hutchison shows poor liquidity and could find it difficult to pay creditors on time which is further evidenced by the very high payables days figure. This could lead to problems obtaining goods from suppliers.

(1 mark per valid reason, maximum 4)

(iv) Ratios do not tell the whole picture as they are only concerned with financial measures. (1)

Past performance is no guarantee of future success as circumstances can change. (1)

(v) Further information should be obtained in respect of:

- is the industry in which Pulford operates developing or declining?
- are there new competitors entering the sector?
- can raw material supplier be guaranteed in future?
- at what stage in the product lifecycle are its products
- does the company invest enough in R&D for the future?

(1 mark per valid item, maximum 4, other answers accepted)

3. Recommendations

None.

Examiner's tips

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