



Introduction to Financial Accounting

NQF

Subject Examiner's Report

Unit Title: Introduction to Financial Accounting

Unit Code: NQF IFA

NQF Level: NQF

Session: December 2016

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 **(6 marks)**

1. Mark scheme

(a)

	(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

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

Drawings	104585	B
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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)

2. Comments on learners' performance

Stronger students were able to calculate the missing balances and, importantly, to apply knowledge to the data. Stronger students were able to identify the financial statements that would provide the relevant information.

Examiner's tips

Ensure that you understand the role and purpose of each financial statement.

Question 2

(a) Enter the receipts into the analysed cash book (receipts side) using the following layout.

Date	Detail	Bank	Cash	Sales	VAT	Sales Ledger

(10 marks)

(b) Enter the payments into the analysed cash book (payments side) using the following layout.

Date	Detail	Bank	Cash	Purchases	VAT	Purchase Ledger

(4 marks)

(c) Enter the transfer of cash into the bank into relevant places in both sides of the cash book. (2 marks)

(d) Open general ledger accounts for sales ledger control, sales, purchase ledger control, purchases and VAT and post the cash book totals to the general ledger. (5 marks)

(e) Explain why a business keeps a general ledger. (4 marks)

1. Comments on learners' performance

Attempted by a small number of students. Some students demonstrated an ability to prepare the relevant accounting records.

2. Mark scheme

(a)

Date	Detail	Bank	Cash	Sales	VAT	Sales Ledger
1/5	Debtor receipts	2016.00 (1)				2016.00 (1)
3/5	Cash Sales		1440.00 (1)	1200.00 (1)	240.00 (1)	
7/5	Cash Sales		2160.00 (1)	1800.00 (1)	360.00 (1)	
14/5	Debtor receipts	1431.00 (1)				1431.00 (1)
30/5	Cash contra	3500.00 (1)				
	Total			3000.00	600.00	3447.00

(b) (4 marks)

Date	Detail	Bank	Cash	Purchases	VAT	Purchase Ledger
12/5	Supplier payment	960.00 (1)				960.00 (1)
23/5	Supplier payment	1626.00 (1)				1626.00 (1)
30/5	Bank contra		3500.00 (1)			
	Total					2586.00

(d)

Sales ledger control			
		31/5/2015	Bank 3447.00
Sales			
		31/5/2015	Cash 3000.00
Purchase ledger control			
31/5/2015	Bank	2586.00	
Purchases			
VAT			

31/5/2015

Cash

600.00

- (e) Provides a summary of all transactions
- Used to prepare financial statements
- Keeps record of income and expenditure
- Saves time working through daybooks etc

Examiner's tips

Ensure that you understand the role of and are able to prepare books of prime entry.

Question 3

- (a) 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

- (b) 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)

- (c) 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)
- (d) 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)
- (e) 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

Attempted by a small number of students. Responses were poor.

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)

Examiner's tips

Ensure that you are able to prepare books of prime entry, Ensure that you understand the key principles of VAT and are able to record VAT in accounting records.

Question 4

- (a) Enter the opening balances in the sales ledger accounts. (3 marks)
- (b) Enter the opening balances in the general ledger accounts. (3 marks)
- (c) Enter the transactions in the sales ledger accounts. (4 marks)
- (d) Enter the transactions in the general ledger accounts. (6 marks)
- (e) Balance off the sales ledger accounts and the sales ledger control account and reconcile the sales ledger listing to the sales ledger control account. (6 marks)
- (f) Explain why it is necessary to reconcile the sales ledger to the sales ledger control account. (3 marks)

1. Comments on learners' performance

Attempted by a small number of students. Generally poor performance.

2. Model Answer

(a) and (c)

Arkwright			
1/5	Bal b/d	3100.00 (1)	
31/5	SDB	1578.00 (1)	

Belvoir			
1/5	Bal b/d	1150.00 (1)	
31/5	SDB	1062.00 (1)	

Coupland			
1/5	Bal b/d	1638.00 (1)	

Delta			
1/5	Bal b/d	2220.00 (1)	
31/5	SDB	3606.00 (1)	

(b) and (d)

SLC			
1/5	Bal b/d	6470.00 (1)	
31/5	SDB	7884.00 (2)	

VAT			
		1/5	Bal b/d
		31/5	SDB
			620.00 (1)
			1314.00 (2)

Sales			
		1/5	Bal b/d
		31/5	SDB
			32491.00 (1)
			6570.00 (2)

- (e)
- A 4678.00 (1)
 - B 2212.00 (1)
 - C 1638.00 (1)
 - D 5826.00 (1)
 - 14354.00 (1)
 - SLC 14354.00 (1)

(f) To help identify whether an error has been made
 To help verify the accuracy of the general ledger
 To help verify the accuracy of the subsidiary ledger
 1 mark per valid point, max 3

Examiner's tips

Take care to apply the key principles and concepts of ledger accounting appropriately.

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

Attempted by a very small number of students.

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	<u>620.00 (1)</u>	31/05/2016	P&L	<u>14,843.00 (1)</u>
		<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	<u>132.00 (1)</u>
		<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

Examiner's tips

Consider the key principle of accruals and prepayments. Ensure that you are able to record the effects of accruals and prepayments in the accounting records.

Question 6

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)

- (a)** Calculate the depreciation for the year for each class of non-current assets and update the ledger accounts accordingly. **(6 marks)**
- (b)** 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)**
- (c)** Prepare the journal required to close off the depreciation expense account at the year-end 30 November 2015. **(2 marks)**
- (d)** 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

Attempted by a very small number of students. Some strong performance at the upper end of the distribution.

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)

Examiner's tips

Consider the key principles of accounting for non-current assets. Consider the key approaches to the calculation of depreciation.

Question 7

- (a) Prepare a statement of comprehensive income (trading, profit and loss account) for the year ended 31 May 2015. **(10 marks)**
- (b) Prepare a statement of financial position (balance sheet) as at 31 May 2015. **(10 marks)**
- (c) Calculate the revised closing inventory valuation. **(2 marks)**
- (d) State the effect that this change will have on:
- (i) Gross profit **(1 mark)**
 - (ii) Net profit **(1 mark)**
 - (iii) Net assets **(1 mark)**

1. Comments on learners' performance

Some students were able to prepare the relevant financial statements. Weaker responses reflected a lack of understanding of the relevant techniques.

2. Mark scheme

Gordon Irrigation Statement of Comprehensive Income for year ended 31 May 2015

Sales		885000	
Less sales returns		<u>(3580)</u>	
			881420 (1)
Less cost of goods sold			
	Opening inventory	149800 (½)	
	Plus (½) Purchases	238510 (½)	
	Less (½) purchase returns	(460) (½)	
	Plus (½) carriage inwards	450 (1)	
	Less (½) closing inventory	<u>(155000) (½)</u>	
			<u>(233300)</u>
Gross profit			648120
	Plus discount received		240 (1)
Less expenses			
	Admin expenses	274000 (½)	
	Carriage outwards	3500 (½)	
	Depreciation expense	62300 (½)	
	Wages	<u>125700 (½)</u>	
			<u>(465500)</u>
Net profit			<u>182860 (1)</u>

Gordon Irrigation balance sheet as at 31 May 2015

Non-current assets	Cost	Depreciation	NBV
	475000 (½)	133600 (½)	341400
Current assets			
	Inventory	155000 (1)	
	Receivables	79500 (1)	
	Prepayments	360 (1)	
			234860
Current liabilities			
	Payables	64300 (1)	
	Accruals	5500 (1)	
	Bank	23600 (1)	
			(93400)
Net current assets			141460
Non current liabilities			
	Bank loan		<u>(200000) (1)</u>
			<u>282860</u>
Financed by			
	Capital	100000 (1)	

Net profit	<u>182860 (1)</u>
	<u>282860</u>

Items must be in correct location to get the mark in each case.

(d) $155000 - 12000 (1) + 9000 (1) = 152000$

(e)

- (i) reduce by 3000
- (ii) reduce by 3000
- (iii) reduce by 3000

Examiner's tips

Practice the key techniques that are needed to prepare financial statements.

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)
- (iv) 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)

(d) 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)

1. Comments on learners' performance

Generally poor responses.

Overall, a limited knowledge of how to calculate financial ratios and to explain/interpret the results of these calculations.

2. Mark Scheme

(a)

30 November 2015	Pulford Ltd £000's	Hutchison Ltd £000's
Receivables	1,000	1,800
Bank (positive balance)	1,250	300
Payables 950 2,600		
Non-current liabilities	1,000	10,000
Closing inventory	500	900

30 November 2014	Pulford Ltd £000's	Hutchison Ltd £000's
Receivables	900	1,950
Bank (positive balance)	800	1,300
Payables 600 2600		
Non-current liabilities	1,000	10,000
Closing inventory	500	900

(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

Examiner's tips

Ensure that you are able to calculate and interpret the results of financial ratios.