



The Association of Business Executives

NQF

**Introduction to Financial
Accounting**

Mark Scheme

Unit Title: Introduction to Financial Accounting

Unit Code: 6.01 IFA

Session: June 2015

Question 1

(a) Enter the figures above into a trial balance and calculate the opening capital figure. **(16 marks)**

Administration expenses	136,000		(1)
Bank (debit balance)	3,640		(1)
Buildings accumulated depreciation		250,600	(1)
Buildings at cost	800,000		(1)
Depreciation expense	77,500		(1)
Heat, light and power	132,000		(1)
Inventory	68,500		(1)
Purchase returns		1,270	(1)
Purchases	187,000		(1)
Sales		915,000	(1)
Sales returns	3,580		(1)
Trade payables		28,300	(1)
Trade receivables	74,600		(1)
Wages	162,350		(1)
Capital		450,000	(2)
	1,645,170	1,645,170	

(b) Net profit has been calculated for the year ended 31 May 2015 as £217,840. Calculate total assets and total liabilities and use these to show the accounting equation and the closing capital figure for Anderson Design. **(3 marks)**

Assets	3640 + 800000 – 250600 + 68500 + 74600	= 696140 (1)
Liabilities		28300 (1)
		= 667840
= Capital (450000 + 217840)		= 667840 (1)

(c) Explain the meaning of the term ‘going concern’ and how it affects the balances such as the valuation of assets shown in accounts. **(3 marks)**

The accounts have been prepared on the basis that the business will continue to trade. Non-current assets are valued at their carrying amount and inventory is valued at cost rather than at breakup value. *(1 mark per reasonable point max 3)*

(d) Explain why it is important for a business to keep accurate accounting records. **(3 marks)**

- Need to satisfy the regulatory authorities (1)
- To provide information for owners / investors (1)
- To establish tax liability (1)

Total Maximum Marks for Q1 25 marks

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)

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)	

FINAL VERSION: TO BE USED FOR MARKING

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

Date	Detail	Bank	Cash	Purchases	VAT	Purchase Ledger

(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

(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)

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

(1 mark for each figure and 1 mark for no entry in purchases)

(a) Explain why a business keeps a general ledger.

(4 marks)

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

(1 mark per valid point to a maximum of 4)

Total Maximum Marks for Q2 25 marks

Question 3

(a) Open General ledger accounts for Sales, Sales returns, Purchases, Purchase returns, Bank and VAT and enter the balance as at 1 March 2015. **(3 marks)**

(b) Enter the transactions listed into the general ledger accounts you have opened and calculate a balance carried down on each account. **(19 marks)**

(a) and **(b)** opening balances 6 x ½ marks 19 marks for other figures as shown

Sales

31/5/2015	Bal c/d	143009.00(1)	1/3/2015	Bal b/d	111059.00 (½)
			31/5/2015	SDB	29750.00 (1)
			31/5/2015	CB	2200.00(1)

Sales Returns

1/3/2015	Bal b/d	2442.00 (½)	31/5/2015	Bal c/d	2842.00(1)
31/5/2015	SRDB	400.00(1)			

Purchases

1/3/2015	Bal b/d	71302.00 (½)	31/5/2015	Bal c/d	89802.00(1)
31/5/2015	PDB	18500.00(1)			

Purchase Returns

31/5/2015	Bal c/d	2715.00(1)	1/3/2015	Bal b/d	1915.00 (½)
			31/5/2015	PRDB	800.00(1)

Bank

31/5/2015	CB	2640.00(1)	1/3/2015	Bal b/d	14227.00 (½)
31/5/2015	Bal c/d	13837.00(1)	12/5/2015	VAT	2250.00(1)

VAT

12/5/2015	Bank	2250.00(1)	1/3/2015	Bal b/d	2250.00 (½)
31/5/2015	PDB	3700.00(1)	31/5/2015	SDB	5950.00(1)
31/5/2015	SRDB	80.00(1)	31/5/2015	PRDB	160.00(1)
31/5/2015	Bal c/d	2770.00(1)	31/5/2015	CB	440.00(1)

(c) Explain how the balance on the VAT account will appear in the financial statements. **(3 marks)**

On the statement of financial position (1) as a current (1) liability (1)

Total Maximum Marks for Q3 25 marks

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)**

(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)			
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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	620.00 (1)	
	31/5	SDB	1314.00 (2)	

Sales

	1/5	Bal b/d	32491.00 (1)	
	31/5	SDB	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

Total Maximum Marks for Q4 25 marks

Question 5

- (a)** Open general ledger accounts for the above and record the opening balances. **(6 marks)**
- (b)** Enter the payments into the ledger accounts opened in **(a)** above. **(3 marks)**
- (c)** Enter the year-end adjustments into the ledger accounts. **(6 marks)**
- (d)** Enter the amounts to be transferred to the profit and loss account (statement of comprehensive income) into each account. **(3 marks)**

Rent

1/6/2014	Bal b/d	500.00 (2)		31/5/2015	Prepayment	600.00 (2)
31/5/2015	Bank	7900.00 (1)		31/5/2015	P&L	7800.00 (1)

Wages

31/5/2015	Bank	14600.00 (1)		1/6/2014	Bal b/d	300.00 (2)
31/5/2015	Accrual	250.00 (2)		31/5/2015	P&L	14550.00 (1)

Insurance

1/6/2014	Bal b/d	120.00 (2)		31/5/2015	P&L	1140.00 (1)
31/5/2015	Bank	950.00 (1)				
31/5/2015	Accrual	70.00 (2)				

(e) Explain how the prepayment will appear in the financial statements. **(3 marks)**

Current (1) asset (1) on the balance sheet (1)

(f) Explain how the accruals will appear in the financial statements. **(3 marks)**

Current (1) liabilities (1) on the balance sheet (1)

(g) Identify the fundamental accounting concept that is satisfied by recording year-end adjustments. **(1 mark)**

Accruals or matching concept (1)

Total Maximum Marks for Q5 25 marks

Question 6

(a) Open the following general ledger accounts:

- Excavation equipment - cost
- Motor Vehicles - cost
- Warehouse equipment - cost

In your general ledger accounts show the entries required to record the acquisition of the above assets. Note that all were paid for by cheque at the time of acquisition. **(3 marks)**

Excavation equipment – cost			
1/6/2012	Bank	30000.00 (1)	

Motor Vehicles – cost			
1/6/2013	Bank	13500.00 (1)	

Warehouse equipment - cost			
1/6/2012	Bank	14400.00 (1)	

(b) Open the following ledger accounts:

- Excavation equipment - accumulated depreciation
- Motor Vehicles - accumulated depreciation
- Warehouse equipment - accumulated depreciation
- Depreciation expense

In your ledger accounts show all of the entries in respect of depreciation for the years ended 31 May 2013, 31 May 2014 and 31 May 2015. **(15 marks)**

Excavation equipment – accumulated depreciation			
	31/5/2013	Depreciation	3000.00 (1)
	31/5/2014	Depreciation	3000.00 (1)
	31/5/2015	Depreciation	3000.00 (1)

Motor Vehicles – accumulated depreciation			
	31/5/2014	Depreciation	5400.00 (1)
	31/5/2015	Depreciation	3240.00 (1)

Warehouse equipment - accumulated depreciation			
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FINAL VERSION: TO BE USED FOR MARKING

31/5/2013	Depreciation	2000.00	(1)
31/5/2014	Depreciation	2000.00	(1)
31/5/2015	Depreciation	2000.00	(1)

Depreciation expense			
31/5/2013	Depreciation	5000.00	(2)
31/5/2014	Depreciation	10400.00	(3)
31/5/2015	Depreciation	8240.00	(3)

(c) Calculate the Net Book Value of each of the assets as at 31 May 2015. **(3 marks)**

Excavator	30000 – 9000 = 21000 (1)
Pickup	13500 – 8640 = 4860 (1)
Forklift	14400 – 6000 = 8400 (1)

(d) Explain which two fundamental accounting concepts require that fixed assets are depreciated over time rather than simply being shown at cost or as an expense. **(4 marks)**

Prudence (1) to recognise losses immediately (1)
 Accruals (1) to match costs to the period of use (1)

Total Maximum Marks for Q6 25 marks

Question 7

(a) Prepare a statement of comprehensive income (trading, profit and loss account) for the year ended 31 May 2015. **(10 marks)**

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

Sales	885000	
Less sales returns	(3580)	
	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	(155000)	(½)
	(233300)	
Gross profit	648120	
Plus discount received	240	(1)
Less expenses		
Admin expenses	274000	(½)
Carriage outwards	3500	(½)
Depreciation expense	62300	(½)
Wages	125700	(½)
	(465500)	
Net profit	182860	(1)

(b) Prepare a statement of financial position (balance sheet) as at 31 May 2015. **(10 marks)**

Gordon Irrigation balance sheet as at 31 May 2015

Non-current assets		Cost	Depreciation	NBV
		475000	(½) 133600	(½) 341400
Current assets				
Inventory		155000		

FINAL VERSION: TO BE USED FOR MARKING

	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			(200000) (1)	
				<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.

(c) Calculate the revised closing inventory valuation. **(2 marks)**

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

(a) State the effect that this change will have on:

- (i) Gross profit **(1 mark)**
- (ii) Net profit **(1 mark)**
- (iii) Net assets **(1 mark)**

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

Total Maximum Marks for Q7 25 marks

Question 8

(a) Calculate the following:

- (i) Gross profit % **(2 marks)**
- (ii) Net profit % **(2 marks)**
- (iii) Receivables days **(2 marks)**
- (iv) Payables days **(2 marks)**
- (v) Current ratio **(2 marks)**
- (vi) Quick (acid test) ratio **(3 marks)**

- (i) 35% 420000 / 1200000
- (ii) 12% 144000 / 1200000
- (iii) 42 138082 / 1200000 x 365
- (iv) 30 62466 / 760000 x 365
- (v) 4.38:1 (138082 + 90000 + 45563) / 62466
- (vi) 2.94:1 (138082 + 45563) / 62466

(b) Identify which of the ratios in part **(a)** are:

- (i) Performance ratios **(2 marks)**
- (ii) Liquidity ratios **(4 marks)**

- (i) Performance ratios (i) and (ii)

FINAL VERSION: TO BE USED FOR MARKING

(ii) Liquidity ratios (iii)(iv)(v)and (vi)

(c) Explain why these ratios alone do not provide sufficient information on which to base economic decisions. Give examples of other types of information that would be useful when making economic decisions about Horton Welding Supplies. **(6 marks)**

- no comparison to previous years
- no competitor information
- products may be becoming obsolete
- may have staff problems
- competitors may be arriving / departing
- no indication of future plans / R&D investment
- may be reliant on one large client

(1 mark for any reasonable point max 6)

Total Maximum Marks for Q8 25 marks