



The Association of Business Executives

NQF

Certificate

6.1 IFA

**Introduction to
Financial Accounting**

Thursday 11 June 2015, Morning

1. Time allowed: **3 hours**.
2. Answer **any four** questions.
3. All questions carry **25 marks**. Marks for subdivisions of questions are shown in brackets.
4. No books, dictionaries, notes or any other written materials are allowed in this examination.
5. **Calculators, including scientific calculators, are allowed provided they are not programmable and cannot store or recall information. All other electronic devices, including mobile phones, are not permitted.**
6. Note that £1 = 100 pence (p).
7. **Candidates who break ABE Examination Regulations will be disqualified from the examinations.**
8. Question papers must not be removed from the examination room.



Answer any four questions

Q1 Anderson Design produces and installs high quality shop display equipment.

The following balances were extracted from the books of account at 31 May 2015:

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

- (a) Enter the figures above into a trial balance and calculate the opening capital figure. **(16 marks)**
- (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)**
- (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)**
- (d) Explain why it is important for a business to keep accurate accounting records. **(3 marks)**
(Total 25 marks)

Q2 Broughton Fabrications has the following cash transactions for the month of May 2015:

1 May	Cheques received from debtors (receivables)	£2,016.00
3 May	Cash sales (inc. 20% vat)	£1,440.00
7 May	Cash sales (inc. 20% vat)	£2,160.00
12 May	Paid credit suppliers by cheque	£960.00
14 May	Cheque received from debtors (receivables)	£1,431.00
23 May	Paid credit suppliers by cheque	£1,626.00
30 May	Paid cash into bank	£3,500.00

(a) Enter the receipts into the analysed cash book (receipts side) using the following layout. **(10 marks)**

Date	Detail	Bank	Cash	Sales	VAT	Sales Ledger

(b) Enter the payments into the analysed cash book (payments side) using the following layout. **(4 marks)**

Date	Detail	Bank	Cash	Purchases	VAT	Purchase Ledger

(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)**
(Total 25 marks)

Q3 Crofton Carpets is a supplier of floor coverings.

The following balances were extracted from the accounts at 1 March 2015:

Sales	£111,059.00	
Sales returns	£2,442.00	
Purchases	£71,302.00	
Purchase returns	£1,915.00	
Bank	£14,227.00	(overdrawn)

The opening balance on the VAT account on 1 March 2015 was £2,250.00 owing to HMRC. This balance was paid on 15 March 2015.

(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) The following transactions took place during the quarter ended 31 May 2015.

Credit sales	£35,700.00	including VAT
Credit sales returns	£480.00	including VAT
Credit purchases	£22,200.00	including VAT
Credit purchase returns	£960.00	including VAT
Cash sales	£2,640.00	including VAT

The rate of VAT is 20%.

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

(c) Explain how the balance on the VAT account will appear in the financial statements. **(3 marks)**
(Total 25 marks)

Q4 Dolan Design has the following credit transactions in the month of May 2015.

SALES DAY BOOK				
Date	Detail	Total	VAT	Sales
1 May	Arkwright.Ltd	1,578.00	263.00	1,315.00
4 May	Belvoir Boats	1,062.00	177.00	885.00
9 May	Coupland Cars	1,638.00	273.00	1,365.00
14 May	Delta Engineering	3,606.00	601.00	3,005.00

The following balances were extracted from the accounts on 1 May 2015:

Sales ledger	Arkwright.Ltd	£3,100.00	
	Belvoir Boats	£1,150.00	
	Coupland Cars	£0.00	
	Delta Engineering	£2,220.00	
General ledger	Sales ledger control account	£6,470.00	
	VAT	£620.00	(credit)
	Sales	£32,491.00	

- (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)**
- (Total 25 marks)**

Q5 Eagle Films is in the process of preparing its financial statements for the year ended 31 May 2015.

(a) The following balances were outstanding at 1 June 2014:

Rent prepayment	£500.00
Wages accrued	£300.00
Insurance prepayment	£120.00

Open general ledger accounts for the above and record the opening balances.

(6 marks)

(b) Payments made by cheque during the year were as follows:

Rent	£7,900.00
Wages	£14,600.00
Insurance	£950.00

Enter the payments into the ledger accounts opened in **(a)** above.

(3 marks)

(c) At 31 May 2015 the following adjustments need to be made:

A prepayment for rent of	£600.00
An accrual for wages of	£250.00
An accrual for insurance of	£70.00

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)

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

(3 marks)

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

(3 marks)

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

(1 mark)

(Total 25 marks)

Q6 Ferguson Builders prepares its accounts each year at 31 May. It owns the following items of Plant and Equipment:

- JCB Excavator bought on 1 June 2012 at a cost of £36,000 including VAT. The excavator is expected to have a useful life of ten years after which time it will have zero residual value. It should be depreciated using the straight line method.
- Ford pick-up truck bought on 1 June 2013 at a cost of £16,200 including VAT. Vehicles are depreciated at a rate of 40% per annum using the reducing balance method.
- Lowden fork lift truck bought 1 June 2012 at a cost of £14,400 plus VAT. The fork lift truck is for use in the warehouse. It is expected to have a useful life of six years after which time it will have a residual value of £2,400 plus VAT. It should be depreciated using the straight line method.

The business is able to reclaim VAT on all of the above assets. VAT is charged at a rate of 20% on the net value of an asset.

(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)

(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)

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

(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)

(Total 25 marks)

Q7 On 31 May 2015 the following trial balance was extracted from the general ledger of Gordon Irrigation Equipment:

	DR	CR
Accruals		5,500
Accumulated depreciation		133,600
Admin expenses	274,000	
Bank		23,600
Bank long term loan		200,000
Capital		100,000
Carriage inwards	450	
Carriage outwards	3,500	
Discount received		240
Depreciation expense	62,300	
Inventory	149,800	
Non-current assets	475,000	
Prepayments	360	
Purchase ledger control		64,300
Purchase returns		460
Purchases	238,510	
Sales		885,000
Sales ledger control	79,500	
Sales returns	3,580	
Wages	125,700	
	<u>1,412,700</u>	<u>1,412,700</u>

Closing inventory has been valued at £155,000.

- (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)**

Additional information:

It has come to light that the closing inventory includes a number of items which were obsolete at 31 May 2015. The original total cost of these items was £12,000 and the original total selling price was £18,000. These will be sold for a total of £9,000.

- (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) |
| | (Total 25 marks) |

Q8 Horton Welding Supplies has produced the following information for the year ended 31 May 2015:

Sales	1,200,000
Purchases	760,000
Gross Profit	420,000
Net Profit	144,000

The following balances are present in the general ledger at 31 May 2015:

Receivables	138,082
Payables	62,466
Closing inventory	90,000
Long term liabilities	200,000
Non-current assets	350,000
Cash at bank	45,563

There are no other assets or liabilities.

(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)**

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

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

(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)**

(Total 25 marks)

End of question paper

BLANK PAGE

BLANK PAGE

