



NQF

Certificate

6.1 IFA

Introduction to Financial Accounting

Thursday 9 June 2016, 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 (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

(i) Produce a trial balance from the list of balances above. **(10 marks)**

(ii) 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)**
(Total 25 marks)

Q2 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)**
(Total 25 marks)

Q3 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%.

(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)**
(Total 25 marks)

Q4 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

(a) 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

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

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

(d) 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)**

(e) Identify possible consequences of this error if it is not corrected. **(4 marks)**
(Total 25 marks)

Q5 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)**

(Total 25 marks)

Q6 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)**
- (Total 25 marks)**

Q7 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)**
- (Total 25 marks)**

Q8 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)

(Total 25 marks)

End of question paper