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**NQF**

**Certificate**

**6.1 IFA**

**Introduction to Financial Accounting**

**Thursday 3 December 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**

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**Q1** The following balances have been extracted from the accounts of Young, a supplier of gardening tools and supplies:

	<b>£</b>
Sales	619,993
Cost of Sales	349,512
Stationery	11,604
Inventory	77,228
Motor expenses	18,510
Wages and salaries	88,195
Heat, light and power	14,410
Sales ledger control	66,294
Purchase ledger control	71,308
Carriage inwards	2,444
Carriage outwards	560
Motor vehicles	36,400
Motor vehicle accumulated depreciation	19,940
Rent paid	13,522
Capital	54,319
Bank (overdrawn)	17,704
Drawings	?

Young has kept no records of his drawings during the year.

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

**Q2** Horsfall supplies decorating services to a range of clients but has kept minimal accounting records since starting his business on 1 July 2015. All money received is banked immediately and all payments are made using the business cheque book. The rate of VAT is 20%.

Horsfall has recorded the following information since starting his business and he has asked you to set up a double entry bookkeeping system for him.

	£
Sales	14,350
Purchase of decorating materials	3,440
Purchase of van	12,500
Bank loan	5,000
Bank current account (positive balance)	2,823
Purchase of tools	1,850
Rent costs	1,200
Motor expenses	725

To date all sales and purchases have been for cash and all materials purchased have been used. VAT is at 20%.

- (a) 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)**

**Additional information:**

During the month of November 2015 the following further cash transactions have taken place:

	£
Cash sales	3,250
Motor fuel bought	55
Cash purchases	882
Paid rent	240

In addition to the above Horsfall has now opened a credit account with Paint and Paper Ltd and has bought materials for £326 on credit during November 2015.

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

**Q3** Roberts Limited is a manufacturer of fashion clothes and has recorded the following transactions in the quarter ended 30 November 2015 (VAT rate is 20%):

	<b>September</b>	<b>October</b>	<b>November</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Credit sales of standard rated items excluding VAT	221,250	328,322	219,407
Cash sales including VAT	495	390	546
Credit purchases excluding VAT	88,215	94,410	79,933
Credit sales of zero rated items	38,344	41,227	52,211

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

**Q4** 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:

	<b>£</b>
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)  
(Total 25 marks)

**Q5** 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)**  
**(Total 25 marks)**

**Q6** Yeo Ltd is a civil engineering contractor and is preparing its accounts for the year ended 30 November 2015.

The company owns various non-current assets and you have been asked to calculate and record the depreciation expense for the year.

The following balances were present in the accounts at 1 December 2014:

	£
Buildings at cost	5,000,000
Buildings accumulated depreciation	1,600,000
Motor vehicles at cost	800,000
Motor vehicles accumulated depreciation	320,000
Plant and machinery at cost	1,250,000
Plant and machinery accumulated depreciation	562,500

Company policy is to depreciate non-current assets on the following bases:

Buildings	2%	straight line basis
Motor vehicles	45%	reducing balance
Plant and machinery	15%	straight line basis

**(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)**

**(Total 25 marks)**

- Q7** Ibbotson is a landscape gardener and his cash book for the month of November 2015 is as follows:

**Cash Book**

1/11	Bal b/d	8,247.31	4/11	Cheque 010151	844.20
6/11	Counter credit	1,280.15	5/11	Cheque 010151	227.11
13/11	Counter credit	992.94	18/11	Cheque 010151	2,301.27
20/11	Counter credit	1,544.56	26/11	Drawings	1,200.00
27/11	Counter credit	1,112.50	28/11	Cheque 010151	15.88

On 30<sup>th</sup> November 2015 he receives the following bank statement:

Green Bank plc  
Morden Lane  
Anytown  
AT1 3LE

Sheet number: 15  
29/10/15 – 29/11/15

A/C: 67511109

Date	Detail	Payments	Receipts	Balance
29/10/2015	Bal b/fwd			10,062.61 CR
30/10/2015	Cheque 010150	1,755.30		8,247.31 CR
5/11/2015	Cheque 010151	844.20		7,403.11 CR
6/11/2015	Cheque 010152	227.11		7,176.00 CR
6/11/2015	Counter credit		1,280.15	8,456.15 CR
14/11/2015	Counter credit		992.94	9,449.09 CR
19/11/2015	Cheque 010153	2,301.27		7,147.82 CR
21/11/2015	Counter credit		1,544.56	8,692.38 CR
23/11/2015	BACS Wiltshire CC		2,000.00	10,692.38 CR
26/11/2015	Cash withdrawn	1,200.00		9,492.38 CR
28/11/2015	Counter credit		1,112.50	10,604.88 CR
28/11/2015	Bank charges	25.00		10,579.88 CR

- (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)**

**(Total 25 marks)**

- Q8** Gibson is an investor and asks your assistance in evaluating the relative strengths and weaknesses of two companies in which he is thinking of investing. The following summary information has been compiled for the years ended 30 November 2015 and 30 November 2014:



<b>Year ended 30/11/15</b>	<b>Pulford Ltd</b>	<b>Hutchison Ltd</b>
	<b>£000's</b>	<b>£000's</b>
Sales	10,000	15,000
Cost of sales	6,540	9,630
Expenses	2,190	3,720

<b>Year ended 30/11/14</b>	<b>Pulford Ltd</b>	<b>Hutchison Ltd</b>
	<b>£000's</b>	<b>£000's</b>
Sales	8,000	16,960
Cost of sales	5,500	10,500
Expenses	1,900	3,600

(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)**

**Additional information:**

The following year end balances have also been calculated:

<b>30 November 2015</b>	<b>Pulford Ltd</b>	<b>Hutchison Ltd</b>
	<b>£000's</b>	<b>£000's</b>
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

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

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

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