



**NQF
Certificate
6.1 IFA**

Introduction to Financial Accounting

Thursday 8 December 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 The following balances have been extracted from the accounts of Young, a supplier of gardening tools and supplies:

	£
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 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:

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)

(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)

Additional 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 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 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)**

Additional 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)**

Additional 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 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 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 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:

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

Year ended 30/11/14	Pulford Ltd	Hutchison Ltd
	£000's	£000's
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:

30 November 2015	Pulford Ltd	Hutchison Ltd
	£000's	£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	Hutchison Ltd
	£000's	£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

(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)**

[Turn over – Q8 continues overleaf]

(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)**

End of question paper

BLANK PAGE

BLANK PAGE