



Study Support

Accounts Preparation I (API) Accounts Preparation II (APII)

Disclaimer

Study Support materials comprise **non live** assessments that were created for the **2003/2006 standards** and **do not** resemble assessments designed for the AAT Accountancy Qualification (launched July 2010).

There are some topic similarities between the 2003/2006 standards and the AAT Accounting Qualification (launched July 2010).

Practice assessments, guidance and standards for the AAT Accountancy Qualification (launched July 2010) can be found on the AAT website.

The Association of Accounting Technicians

Contents

- Support book Part 1** Unit 5: Maintaining Financial Records and Preparing Accounts (FRA)
2003/2006 standards exam; June 2009 sitting
- Support book Part 2** Unit 5: Maintaining Financial Records and Preparing Accounts (FRA)
2003/2006 standards exam; December 2009 sitting

Support Book Part 1

Questions

Source:

2003/2006 standards exam; June 2009 sitting

Contents:

Unit 5: Maintaining Financial Records and Preparing Accounts (FRA)

AAT Level 3 Intermediate/Diploma Pathway (2003/2006 standards)

Wednesday 17 June 2009 (afternoon)

Time allowed - 3 hours plus 15 minutes' reading time

This exam paper is in **TWO** sections.

You must show competence in BOTH sections. So, try to complete EVERY task in BOTH sections.

Section 1 contains 5 tasks and Section 2 contains 6 tasks.

You should spend about 90 minutes on Section 1 and about 90 minutes on Section 2.

Against each task is the recommended time for that task, but please note that these times are **guidelines** only.

Section 1

You should spend about 90 minutes on this section.

Data

Izzy Andrews is the owner of Bookcase, a business that buys and sells books. The business operates from a small shop. She does not keep a double entry bookkeeping system. The business is not registered for VAT and there are no credit sales.

You are an accounting technician at Harper and Co., the accounting firm that prepares the final accounts for Bookcase. You are working on its accounts for the year ended 31 March 2009 and you have the following information (see next page).

Bookcase**Bank account summary for the year ended 31 March 2009**

	£		£
Opening balance	1,500	Payments to trade creditors	77,120
Cash	123,850	Administration expenses	11,680
Sale of fixtures	1,380	Purchase of replacement fixtures	4,200
		Wages	6,000
		Drawings	25,000
		Closing balance	2,730
	126,730		126,730

Bookcase**Cash account summary for the year ended 31 March 2009**

	£		£
Opening balance	200	Purchases	5,000
Sales	129,000	Bank	123,850
		Closing balance	350
	129,200		129,200

Bookcase**Balance sheet as at 31 March 2008**

	£	£	£
	Cost	Accumulated depreciation	Net book value
Fixed assets			
Fixtures and fittings	12,000	5,210	6,790
Current assets			
Stock		15,200	
Prepayment		2,000	
Bank		1,500	
Cash		200	
		18,900	
Current liabilities			
Trade creditors		6,270	
Net current assets			12,630
Total net assets			19,420
Capital			19,420

Task 1.1 (10 minutes)

The total owed to trade creditors on 31 March 2009 was £8,915.

- (a) Prepare the purchases ledger control account for the year ended 31 March 2009, showing clearly the credit purchases as the balancing figure.

Purchases ledger control account

	£		£

- (b) Calculate the total purchases (cash and credit) for the year ended 31 March 2009, to be included in the trial balance.

Task 1.2 (30 minutes)

During the year Izzy replaced some of the fixtures and fittings.

- The fixtures originally cost £4,000 in September 2006.
- The depreciation policy is 15% per year reducing balance.
- A full year's depreciation is applied in the year of acquisition and none in the year of disposal.

- (a) Calculate the accumulated depreciation on the fixtures and fittings that were sold during the year ended 31 March 2009.

- (b) Prepare the disposal account for the year ended 31 March 2009.

Disposal account

	£		£

- (c) Calculate the revised fixtures and fittings cost as at 31 March 2009, to be included in the trial balance.

(d) Adjust the opening accumulated depreciation for the fixtures that have been sold during the year ended 31 March 2009.

(e) Using your answers to **(c)** and **(d)**, calculate the depreciation charge for the year ended 31 March 2009, to be included in the trial balance.

(f) Using your answers to **(d)** and **(e)**, calculate the updated accumulated depreciation as at 31 March 2009, to be included in the trial balance.

Task 1.3 (15 minutes)

- The prepayment as at 31 March 2008 was for rent.
- Rent of £3,300 was paid in March 2009 for the 3 months to 31 May 2009.
- Rent is included in administration expenses.

(a) Calculate the adjustment required as at 31 March 2009 for the rent paid in March 2009. State clearly whether it is a prepayment or an accrual.

(b) Calculate the adjusted administration expenses for the year ended 31 March 2009.

(c) Explain why the adjustment to administration expenses is necessary. Refer to the relevant accounting concept from FRS18.

Task 1.5 (10 minutes)

You need to calculate the closing stock figure. Izzy tells you that the gross profit margin achieved on all sales is 35%.

- (a) Calculate the gross profit for the year ended 31 March 2009. Use the information above and the sales figure from your trial balance on page 9.

- (b) Calculate the cost of goods sold.

- (c) Calculate the closing stock figure. Use your answer to part (b) and the purchases and opening stock figures from your trial balance on page 9.

Section 2

You should spend about 90 minutes on this section.

Data

Dave and Eve are the owners of DE Machines, a partnership business that sells cleaning equipment.

You are an accounting technician at Harper and Co., the accounting firm that prepares DE Machines' final accounts.

- The financial year end is 31 March.
- The partners maintain an accounting system consisting of a main ledger, a purchases ledger and a sales ledger.
- DE Machines is registered for VAT.
- The pro-forma extended trial balance as at 31 March 2009 is shown on pages 14 and 15.

You have investigated the balance on the suspense account and discovered the errors that need to be corrected. There are also some year-end adjustments to be made:

- (a) Depreciation needs to be provided on the vehicles for the year ended 31 March 2009 at 25% using the straight line method. It is assumed there will be no residual value. There were no acquisitions or disposals recorded during the year.
- (b) A cheque for £150 paid from the bank for selling expenses has been debited to both selling expenses and payroll expenses. The credit entry was correct.
- (c) The provision for doubtful debts needs to be adjusted to £1,000.
- (d) A credit entry to the bank for drawings of £900 paid to Dave has been made correctly, but no other entries were made.
- (e) A bank payment for insurance of £500 has been debited twice to the insurance account. No other entries were made.

Task 2.1 (20 minutes)

Make entries in the adjustments columns of the extended trial balance on pages 14 and 15 to account for the above. Ignore VAT. Show your workings in the space provided on page 13.

Task 2.2 (25 minutes)

Extend the profit and loss and balance sheet columns of the extended trial balance on pages 14 and 15. Make entries to record the net profit or loss for the year ended 31 March 2009. **DE Machines – Extended trial balance**

	Ledger balances	
	Dr £	Cr £
Bank	27,980	
Capital account – Dave		25,000
Capital account – Eve		25,000
Cash	400	
Cost of goods sold	184,000	
Closing stock	30,000	
Current account – Dave	18,630	
Current account – Eve	27,090	
Insurance	3,200	
Office expenses	50,350	
Payroll expenses	31,150	
Provision for doubtful debts		1,300
Purchases ledger control account		29,900
Rent	16,000	
Sales		436,250
Sales ledger control account	36,000	
Selling expenses	67,000	
VAT		9,800
Vehicles at cost	62,000	
Vehicles accumulated depreciation		26,300
Suspense		250
Total	553,800	553,800

Task 2.3 (10 minutes)

Dave and Eve share the partnership's profits in the ratio 60:40.

Complete the partners' current accounts:

- Enter the balances from the extended trial balance on page 15.
- Make entries for the profit or loss for the year ended 31 March 2009.
- Balance off the accounts and show the opening balances in the next period.
- Show clearly the dates of each entry.

Current accounts

Date 2009		Dave £	Eve £	Date 2009		Dave £	Eve £

Workings:

Additional data

On 1 April 2009 Felix was admitted to the partnership.

- He introduced £75,000 to the bank account.
- Goodwill was valued at £60,000 on 1 April 2009.
- Goodwill is to be eliminated from the accounts.
- The new profit sharing percentages are:

Dave	45%
Eve	30%
Felix	25%

Task 2.5 (10 minutes)

Update the capital accounts for the partners. Show clearly:

- the introduction of cash by Felix
- the introduction of goodwill
- the elimination of goodwill
- the balances carried forward

Capital accounts

	Dave £	Eve £	Felix £		Dave £	Eve £	Felix £
				Balance b/f	25,000	25,000	

Workings:

Task 2.6 (5 minutes)

Felix has asked you for some details of the vehicles at cost figure of £62,000 on the trial balance as at 31 March 2009. However, a new list supplied by Dave and Eve shows the following:

Vehicles held by DE Machines as at 31 March 2009		
Description	Registration number	Cost £
VW Passat estate car	WP07YBM	22,500
Mercedes car	RW58DRP	24,500
Total		47,000

Outline briefly the action you would now take, and why.

Model Answers

Section 1

Task 1.1

(a)

Purchases ledger control account

	£		£
Bank	77,120	Balance b/f	6,270
Balance c/f	8,915	Credit purchases	79,765
	86,035		86,035

(b)

	£
Credit purchases	79,765
Cash purchases	5,000
Total purchases	<u>84,765</u>

Task 1.2

(a)

	£
Original cost	4,000
Depreciation year ended 31 March 2007 (15% x 4,000)	<u>(600)</u>
Net book value 31 March 2007	3,400
Depreciation year ended 31 March 2008 (15% x 3,400)	<u>(510)</u>
Net book value 31 March 2008	<u>2,890</u>
No depreciation in year of disposal	
Total depreciation (600 + 510)	1,110

(b)

Disposal account

	£		£
Fixtures and fittings at cost	4,000	Fixtures and fittings accumulated depreciation	1,110
		Bank	1,380
		Loss on disposal (P&L)	1,510
	4,000		4,000

(c)

	£
Cost as at 31 March 2008	12,000
Disposal year ended 31 March 2009	(4,000)
Acquisition year ended 31 March 2009	4,200
Revised fixtures and fittings cost 31 March 2009	<u>12,200</u>

(d)

	£
Accumulated depreciation as at 31 March 2008	5,210
Depreciation on disposal	(1,110)
Adjusted accumulated depreciation	<u>4,100</u>

(e)

	£
Revised fixtures and fittings cost as at 31 March 2009	12,200
Adjusted accumulated depreciation	(4,100)
	<u>8,100</u>
Depreciation for year ended 31 March 2009 (8,100 x 15%)	<u>1,215</u>

(f)

	£
Adjusted accumulated depreciation	4,100
Depreciation for the year ended 31 March 2009	1,215
Accumulated depreciation as at 31 March 2009	<u>5,315</u>

Task 1.3

(a)

£3,300 x 2/3 = £2,200 prepayment

(b)

	£
Bank	11,680
Opening prepayment	2,000
Closing prepayment	(2,200)
Adjusted administration expenses for the year ended 31 March 2009	<u>11,480</u>

(c)

The relevant accounting concept is the accruals concept. This requires final accounts to include figures for income and expenditure when they are incurred, not when they are paid. Therefore the part of the rent payment (£2,200) that relates to the following accounting period (April and May 2009) is carried forward to that period.

Task 1.4

Bookcase

Trial balance as at 31 March 2009

	Dr £	Cr £
Administration expenses (1.3b)	11,480	
Bank	2,730	
Capital		19,420
Cash	350	
Depreciation charge for the year (1.2e)	1,215	
Drawings	25,000	
Fixtures and fittings at cost (1.2c)	12,200	
Fixtures and fittings accumulated depreciation (1.2f)		5,315
Loss on disposal of fixed asset (1.2b)	1,510	
Opening stock	15,200	
Prepayment (1.3a)	2,200	
Purchases (1.1b)	84,765	
Sales		129,000
Trade creditors (purchases ledger control account)		8,915
Wages	6,000	
Total	162,650	162,650

Task 1.5

(a)

Gross profit = Sales £129,000 x 35% = **£45,150**

(b)

Cost of goods sold = Sales £129,000 - Gross profit £45,150 = **£83,850**

Or

£129,000 x 65% = **£83,850**

(c)

	£
Opening stock	15,200
Purchases	84,765
Cost of goods sold	<u>(83,850)</u>
Closing stock	<u>16,115</u>

Section 2

Tasks 2.1 and 2.2

DE Machines – Extended trial balance as at 31 March 2009								
	Ledger balances		Adjustments		Profit and Loss		Balance Sheet	
	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £	Dr £	Cr £
Bank	27,980			(e) 500			27,480	
Capital account – Dave		25,000						25,000
Capital account – Eve		25,000						25,000
Cash	400						400	
Cost of goods sold	184,000				184,000			
Closing stock	30,000						30,000	
Current account – Dave	18,630		(d) 900				19,530	
Current account – Eve	27,090						27,090	
Insurance	3,200			(e) 500	2,700			
Office expenses	50,350				50,350			
Payroll expenses	31,150			(b) 150	31,000			
Provision for doubtful debts		1,300	(c) 300					1,000
Purchases ledger control account		29,900						29,900
Rent	16,000				16,000			
Sales		436,250				436,250		
Sales ledger control account	36,000						36,000	
Selling expenses	67,000				67,000			
VAT		9,800						9,800
Vehicles at cost	62,000						62,000	
Vehicles accumulated depreciation		26,300		(a) 15,500				41,800
Suspense		250	(e) 1,000 (b) 150	(d) 900				
Depreciation charge			(a) 15,500		15,500			
Provision for doubtful debts adjustment				(c) 300		300		
Net profit					70,000			70,000
Total	553,800	553,800	17,850	17,850	436,550	436,550	202,500	202,500

Task 2.3

Current accounts

Date 2009		Dave £	Eve £	Date 2009		Dave £	Eve £
31 March	Balance b/f	19,530	27,090	31 March	Share of profit	42,000	28,000
31 March	Balance c/d	22,470	910				
		42,000	28,000			42,000	28,000
				1 April	Balance b/d	22,470	910

Workings:

Net profit from extended trial balance £70,000 x 60% = £42,000 Share of profit for Dave

Net profit from extended trial balance £70,000 x 40% = £28,000 Share of profit for Eve

Task 2.4

DE Machines

Balance sheet as at 31 March 2009

		£	£	£
Workings	Fixed assets	Cost	Depreciation	Net book value
	Vehicles	62,000	41,800	20,200
	Current assets			
	Stock		30,000	
36,000 – 1,000	Debtors (Sales ledger control account)		35,000	
	Bank		27,480	
	Cash		400	
			92,880	
	Current liabilities			
	Creditors (Purchases ledger control account)	29,900		
	VAT	9,800		
			(39,700)	
	Net current assets			53,180
	Total net assets			73,380
	Financed by:	Dave	Eve	Total
	Capital accounts	25,000	25,000	50,000
	Current accounts	22,470	910	23,380
	Total	47,470	25,910	73,380

Task 2.5

Capital accounts

	Dave £	Eve £	Felix £		Dave £	Eve £	Felix £
Goodwill eliminated	27,000	18,000	15,000	Balance b/f	25,000	25,000	
Balance c/f	34,000	31,000	60,000	Bank			75,000
				Goodwill introduced	36,000	24,000	
	61,000	49,000	75,000		61,000	49,000	75,000

Workings:

Goodwill introduced:

Dave £60,000 x 60% = £36,000

Eve £60,000 x 40% = £24,000

Goodwill eliminated:

Dave £60,000 x 45% = £27,000

Eve £60,000 x 30% = £18,000

Felix £60,000 x 25% = £15,000

Task 2.6

I would contact the partners and ask them politely if there had been any disposals of vehicles in the year ended 31 March 2009, or if there were any other vehicles they had forgotten to list, as the details they had given me did not correspond with the figure in the trial balance. Depending on their answer, I might need to ask my supervisor what action to take next.

Accounting Qualification

Chief Assessor's report

The logo for the Accounting Association of Teachers (AAT) is displayed in white lowercase letters on a black rectangular background.

AAT Accounting Qualification
NVQ/SVQ
Level 3
Maintaining Financial Records
and Preparing Accounts (FRA)
2003 Standards

AAT Accounting Qualification
Diploma pathway
Advanced Certificate
Financial Accounting (FRA)
2003 Standards

June 2009

General comments

Section 1 presented a sole trader with incomplete records and in Section 2 candidates were required to prepare final accounts for a partnership business, including an extended trial balance and a balance sheet and then deal with some specific partnership issues. In both sections they were asked to display their knowledge and understanding by producing written explanations.

Most candidates now show workings for their answers. This enables more marks to be given in the case of a wrong answer, and is a good habit for the workplace. Those few who do not show their workings may risk a considerable number of marks in the event of a mistake.

The improvement in the general standard of double entry accounting, including accurate account names, has been maintained, which is very pleasing. However, more accuracy and attention to detail in this area by some students would be a further improvement. This is important and will continue to be tested.

Candidates should not use pencil or red ink in their answers. If they are untidy, this is not specifically penalised, but if it means that workings cannot be followed or words and figures cannot be read, marks will be lost, so candidates should try to present a neat and tidy exam paper. Again this is a standard that would be expected in the workplace. Similarly the excessive use of shorthand, for example "BCF" in double entry accounts should be avoided. It is important that candidates communicate clearly and in a manner suitable in the workplace, so that the recipient of the information knows exactly what they mean.

Section 1

Task 1.1

This was a straightforward purchases ledger control account. All students should be prepared to produce control accounts, and this was generally well done. The most common error was to include the cash purchases, though the task clearly guides the student in parts (a) and (b) so that it should have been obvious that these were not to be included. Occasionally the purchase of the new fixed asset was also included in (b). A small minority omitted either the opening or closing balance, or put entries on the wrong sides. Those who got full marks entered the figures and the labels correctly.

Task 1.2

In this task the candidate was required to deal with the disposal of a fixed asset and calculations for depreciation. The task was highly structured to guide candidates through what is considered to be a complex area. Most students found this helpful and performance was very pleasing. However, a significant number

applied three years' depreciation to the disposal in (a) rather than the correct two. The policy was very clearly stated, and students should be able to follow this and cope with a disposal that does not coincide with the year-end date. In the disposal account in (b), the labelling of entries was often disappointing. The proceeds should be labelled with the correct double entry, that is Bank, not Proceeds or Sale of asset, for example. Otherwise, this was quite well done by many candidates. The remainder of the task was designed to assist in the preparation of the depreciation figures for the trial balance. Errors made in (a) and (b) were not penalised again in these parts. Weaker candidates were confused but many scored full marks in (c) to (f).

Task 1.3

This task was designed to test the application, knowledge and understanding of the accruals concept. Common mistakes were to miscalculate the prepayment or omit the opening prepayment. In (c) the accruals concept was often correctly mentioned, though candidates still find it difficult to explain this clearly.

Task 1.4

The production of a trial balance from the preceding incomplete records is a demanding task requiring full understanding of the tasks already performed and of double entry. Some candidates were able to produce correct, balancing trial balances, which was very pleasing, and the majority were able to make a very good attempt. The most common mistakes were placing bank, prepayments or drawings on the wrong side, picking up the wrong figures for sales and purchases and trying to include closing stock even though the task clearly stated it was not available. The latter suggests to me that candidates are not able to adapt their knowledge to new circumstances, as closing stock has often previously been included. Those candidates who are very weak in this area enter many debits and credits on the wrong side. There are plenty of past papers available, all with this task in Section 1, so students should prepare by practising as many as possible.

Task 1.5

This task was a slight departure from previous approaches but again was highly structured, with guidance for candidates as to where to find the information. Students tended to either grasp the idea or not. It was very disappointing that many did not understand how to generate the closing stock figure in (c). I suspect that these students would have easily completed a profit and loss account, and would have been able to calculate gross profit but could not manipulate the equation to find closing stock. In (a) many students calculated the gross profit correctly, but many others did not understand how to calculate profit from sales and sales margin, and a significant number arrived at a profit higher than sales. Students absolutely must look at their figures to see if they make sense if they are to be successful in the exams and in the workplace.

Section 2

Task 2.1

A number of adjustments were required to be placed in the appropriate columns of the extended trial balance. Most candidates made a good attempt at this. The common errors were to place the adjustment for Dave's drawings in a separate account instead of in the current account; incorrectly adjusting for (e); posting the credit adjustment to the provision for doubtful debts against the sales ledger control account or a bad debts account; and failing to clear the suspense account. Although the task did not require candidates to check this, it is good practice to make sure the suspense account is clear before proceeding. A few candidates do not total the adjustments columns, which is another way of checking their own work – and the marking scheme expects this.

Task 2.2

Extending the trial balance was not a problem for competent candidates. Weaker candidates place figures in the wrong columns, do not extend correctly, do not know how to balance it off and do not label the balancing entries, despite the clear instruction to show the profit or loss. A common error even by strong candidates was to include closing stock twice. Again this is a case of not reacting to a slightly different set of circumstances. Cost of goods sold was included this time as it was thought to be a more realistic scenario, but many candidates did not remember that this figure would include closing stock, and that therefore only one entry, to the balance sheet, was required. The cost of goods sold figure, however, was treated correctly in the majority of cases.

Task 2.3

Very clear guidance as to what was required in the current accounts was given here. If candidates followed this, they could score very good marks for a relatively simple task. However, most did not achieve full marks because they did not follow the instructions. Dates were often omitted or only included for some entries. The opening balances in the next period were often not shown. These are skills required at the entry level, and it was disappointing to find these have been forgotten at this stage. Some markers described performance on this task as “sloppy”. Otherwise, the task was attempted fairly well as regards the figure entries, though quite often opening balances were on the wrong side and profit was sometimes placed on the debit side.

Task 2.4

Overall the balance sheet was very well prepared by the majority of candidates. The disappointing aspect was the ‘financed by’ section. A large proportion of candidates did not know how to present this correctly for a partnership. Instead of using the current account balances from task 2.3, the opening current account figures were used in aggregate, then this and the unappropriated profit figure was added to a total capital figure. If done correctly this produced a balancing balance sheet, but full marks were not achieved if the correct partnership format was not used. The other common mistake was to include the provision for doubtful debts as a liability instead of deducting it from the current assets.

Task 2.5

This task involved the calculation of revised capital figures for the partners following the admission of a new partner, together with a goodwill valuation. Many candidates were able to do this correctly, which was very pleasing as performance in this type of task has not been strong in the past. Frequently, candidates split the introduction of goodwill 50:50, although the profit sharing ratio had been given to them in an earlier task. Other common mistakes could have been avoided with careful thought. For example, if the goodwill entries were on the wrong sides, Felix ended up with more capital than he injected. Common sense tells us this cannot be correct. Similarly, if entries for goodwill on both sides are the same, there is no change to the capital figures. Can this be right? Again, candidates need to be careful with their labelling of entries. The correct entry for Felix’s introduction of capital is Bank.

Task 2.6

This task was about verifying the presence of fixed assets and seeking appropriate advice. Most students noticed the discrepancy and there were many sensible suggestions as to why the figures disagreed, which was very pleasing. Most also suggested referring to the existing partners or to their supervisor for more information or advice. Although it was not required or expected, it was pleasing to see a number of comments on the potential significance of the difference with respect to Felix’s investment. A significant minority, however, were prepared to adjust the figures without any further investigation. There were also answers to tasks that have been set in previous exam papers, such as confidentiality, the contents of a fixed assets register and even an occasional reference to stock takes. This is evidence of rote learning, or not reading the task thoroughly.

Support Book Part 2

Questions

Source:

2003/2006 standards exam; December 2009 sitting

Contents:

Unit 5: Maintaining Financial Records and Preparing Accounts (FRA)

AAT Level 3 Intermediate/Diploma Pathway (2003/2006 standards)

Wednesday 2 December 2009 (afternoon)

Time allowed - 3 hours plus 15 minutes reading time

This exam paper is in **TWO** sections.

You must show competence in BOTH sections. So, try to complete EVERY task in BOTH sections.

Section 1 contains 7 tasks and Section 2 contains 5 tasks.

You should spend about 90 minutes on Section 1 and 90 minutes on Section 2.

Section 1

You should spend about 90 minutes on this section.

Against each task is a recommended time for that task, but please note that these times are guidelines only.

Data

Chris and Sid started trading as a partnership business known as Crisis IT Solutions on 1 October 2008. They are computer technicians working for small businesses. They do not keep a double entry bookkeeping system. The business is not registered for VAT.

You are an accounting technician at Harper and Co., the accounting firm that will prepare the first set of accounts for the year ended 30 September 2009. Chris and Sid have summarised the bank account, which is shown below.

Crisis IT Solutions Bank summary for the year ended 30 September 2009

	£		£
Capital introduced by Chris 1 October 2008	6,000	Rent of premises	8,000
Capital introduced by Sid 1 October 2008	10,000	Payments to trade creditors	18,160
Receipts from trade debtors	49,600	Travel expenses	4,300
		Administration expenses	3,270
		Drawings - Chris	14,000
		Drawings - Sid	14,000
		Closing balance	3,870
	65,600		65,600

Additional information:

- Chris transferred his own vehicle to the business on 1 October 2008. It was valued at £4,000.
- On 30 September 2009, trade debtors owed £6,300.
- On 30 September 2009, trade creditors were owed £2,500. During the year the total supplies were £22,000.

Task 1.2 (8 minutes)

Prepare the opening capital accounts as at 1 October 2008, showing clearly all the capital introduced.

Capital accounts

	Chris £	Sid £		Chris £	Sid £

Task 1.3 (3 minutes)

The vehicle is to be depreciated at 25% on a reducing balance basis.

Calculate the depreciation charge for the year ended 30 September 2009.

Task 1.4 (12 minutes)

The figure for rent of premises in the bank summary includes a payment of £1,350 for the period 1 September 2009 to 30 November 2009.

(a) Prepare the rent account, showing clearly the rent for the year ended 30 September 2009.

Rent

	£		£

Workings:

During November 2009, £250 was paid for telephone costs for the period 1 July 2009 to 30 September 2009. Telephone costs are charged to administration expenses.

(b) Calculate the adjusted administration expenses for the year ended 30 September 2009.

Task 1.7 (12 minutes)

In Task 1.3 you calculated depreciation.

(a) Explain briefly the purpose of depreciation.

(b) The partners are going to buy some office furniture. They expect it to be of equal use to the business for each of the next four years.

Tick the box that shows the method of depreciation you should recommend them to use.

- 20% reducing balance method
- 20% straight line method
- 25% reducing balance method
- 25% straight line method

(c) FRS18 names four objectives that should be considered when selecting accounting policies.

Which TWO of the following are listed as objectives in FRS18? Tick TWO correct boxes.

- Comparability
- Confidentiality
- Consistency
- Reflexivity
- Relevance
- Rotation

Section 2

You should spend about **90 minutes** on this section.

Against each task is a recommended time for that task, but please note that these times are guidelines only.

Data

Viola Tarlo is the owner of a business that makes and sells pies to the general public and local businesses.

You are an accounting technician at Harper and Co., the accounting firm that prepares the final accounts for Viola Tarlo.

- The financial year end is 30 September.
- Viola Tarlo's double entry accounting system consists of a main ledger, a purchases ledger and a sales ledger.
- The business is not registered for VAT.
- An extract from the extended trial balance as at 30 September 2009 is shown on page 15.

Task 2.1 (15 minutes)

Most of the year-end adjustments have been made in the accounts, but there are some further adjustments you now need to make:

- (a) Insurance costs of £500 have been charged to office expenses. Insurance should be included in general expenses.
- (b) Closing stock has been valued at £425 but no entries have been made.
- (c) The provision for doubtful debts needs to be adjusted to 4% of the balance on the sales ledger control account (see page 15).
- (d) Viola has taken items to the value of £350 for her personal use. These items were charged to purchases.

Make entries to account for (a) to (d) above in the adjustments columns of the extract from the extended trial balance on page 15.

Note:

Do not total the adjustment columns yet.

Task 2.2 (20 minutes)

Viola part-exchanged a piece of equipment during the year but no entries have been made in the ledger for this transaction.

- The original cost of the equipment that was part-exchanged was £2,100.
- The accumulated depreciation on the equipment that was part-exchanged was £1,575.
- A part-exchange allowance of £600 was given against the new equipment.
- The £2,400 balance owing for the new equipment was paid from the bank during the year.
- A full year's depreciation needs to be provided on the new equipment on a 25% straight line basis. It is assumed that there will be no residual value. No other depreciation needs to be provided.

(a) Calculate the net book value of the equipment that was part-exchanged.

(b) Calculate the profit or loss on disposal of the equipment that was part-exchanged.

Task 2.2, continued

(c) Calculate the total cost of the new equipment.

(d) Calculate the depreciation charge on the new equipment for the year ended 30 September 2009.

(e) Make entries in the adjustments columns of the extended trial balance on page 15 to account for:

- (i) the disposal of the part-exchanged equipment and the acquisition of the new equipment**
- (ii) the depreciation charge on the new equipment.**

Tasks 2.1 and 2.2 (e)

Viola Tarlo

Extract from extended trial balance as at 30 September 2009

	Ledger balances		Adjustments	
	Dr £	Cr £	Dr £	Cr £
Bank	1,230			
Capital		2,960		
Cash	200			
Delivery expenses to customers	3,800			
Depreciation charge	2,875			
Drawings	20,000			
Equipment at cost	15,000			
Equipment accumulated depreciation		7,850		
General expenses	2,000			
Office expenses	1,620			
Opening stock	1,030			
Provision for doubtful debts		150		
Purchases	24,150			
Purchases ledger control account		895		
Rent	4,000			
Sales		66,850		
Sales ledger control account	2,800			
Closing stock - balance sheet				
Closing stock - profit and loss account				
Provision for doubtful debts adjustment				
Disposals				
Total	78,705	78,705		

Task 2.5 (15 minutes)

- (a) Describe the basis of stock valuation according to SSAP9 (Stocks and long-term contracts).

Some of Viola's pies are made with meat. If she can sell them within 3 days of making them, she sells them at full price. If the pies are 4 or 5 days old she sells them at a reduced price. If the pies are over 5 days old she has to throw them away. On 30 September 2009 the meat pies were valued at £180 using the following information:

Age of pies	Up to 3 days old	4 or 5 days old	Over 5 days old
Number of pies	80	50	14
Cost	£1.25	£1.25	£1.25
Selling price	£2.25	£1.10	£0.00

- (b) Recalculate the closing stock valuation for meat pies that should be used in the year-end accounts.

- (c) Calculate by how much the closing stock valuation for meat pies will change.

- (d) Will the change in the stock valuation for meat pies cause the gross profit in the accounts to increase, decrease or stay the same? Tick ONE box.

- Increase
- Decrease
- Stay the same

Model Answers

Section 1

Task 1.1

(a) Sales ledger control account

	£		£
Credit sales	55,900	Bank	49,600
		Balance c/f	6,300
	55,900		55,900

(b) Purchases ledger control account

	£		£
Bank	18,160	Supplies	22,000
Discounts received	1,340		
Balance c/f	2,500		
	22,000		22,000

Task 1.2

Capital accounts

	Chris £	Sid £		Chris £	Sid £
Balance c/f	10,000	10,000	Bank	6,000	10,000
			Vehicles at cost	4,000	
	10,000	10,000		10,000	10,000

Task 1.3

£4,000 x 25% = £1,000

Task 1.4

(a) Rent

	£		£
Bank	8,000	Prepayment c/f	900
		Rent for year ended 30 September 2009	7,100
	8,000		8,000

Workings:

$$£1,350 / 3 \times 2 = £900$$

(b)

	£
Bank	3,270
Accrued telephone costs	250
	3,520
Adjusted admin expenses	3,520

Task 1.5

(a) Journal

	Dr £	Cr £
Bad debt expense	620	
Sales ledger control account/SLCA/Debtors control		620
Being the writing off of an irrecoverable bad debt from Basiks Limited		

(b)

(i) *When a bad debt is written off there is reasonable certainty that a specific debtor is not going to pay. The profit and loss account is charged with the bad debt and the amount is taken off the sales ledger control account.*

(ii) A provision for doubtful debts is made when there is some doubt that the total value of debtors will be collected. The change in the provision is charged to the profit and loss account through the adjustment account. The total provision is deducted from the trade debtors in the balance sheet. Having a provision for doubtful debts matches the expense with the period in which the revenue was earned.

The provision is often based on a percentage of trade debtors or a percentage of sales. The provision can be adjusted each year and the debts are not actually written off.

Task 1.6

Crisis IT Solutions Trial balance as at 30 September 2009

	Dr £	Cr £
Accrual		250
Administration expenses	3,520	
Bad debts	620	
Bank	3,870	
Capital – Chris		10,000
Capital – Sid		10,000
Depreciation charge	1,000	
Discounts received		1,340
Drawings – Chris	14,000	
Drawings – Sid	14,000	
Prepayment	900	
Purchases ledger control account		2,500
Rent (1.4a)	7,100	
Sales (1.1a)		55,900
Sales ledger control account	6,300 Or 5,680	620
Supplies	22,000	
Travel expenses	4,300	
Vehicles at cost	4,000	
Vehicles accumulated depreciation		1,000
Total	81,610	81,610

Task 1.7

- (a) The purpose of depreciation is to spread the cost of a (fixed) asset over its (estimated) useful life to the business. This is an application of the accruals concept.
- (b) 25% straight line method
- (c) Comparability and relevance

Section 2

Task 2.2

(a)

	£	£
Cost	2,100	
Accumulated depreciation	(1,575)	
Net book value	<hr/>	525

(b)

Part-exchange allowance	600	
Net book value	(525)	
Profit on disposal	<hr/>	75

(c)

Paid from bank	2,400	
Part exchange allowance given	600	
Cost of new equipment	<hr/>	3,000

(d)

Cost of new equipment	3,000	
x 25% = depreciation charge		750

Tasks 2.1 and 2.2 (e)

Viola Tarlo

Extract from extended trial balance as at 30 September 2009

	Ledger balances			Adjustments	
	Dr £	Cr £		Dr £	Cr £
Bank	1,230		2.2c		2,400
Capital		2,960			
Cash	200				
Delivery expenses to customers	3,800				
Depreciation charge	2,875		2.2d	750	
Drawings	20,000		2.1d	350	
Equipment at cost	15,000		2.2a,c	3,000	2,100
Equipment accumulated depreciation		7,850	2.2a,d	1,575	750
General expenses	2,000		2.1a	500	
Office expenses	1,620		2.1a		500
Opening stock	1,030				
Provision for doubtful debts		150	2.1c	38	
Purchases	24,150		2.1d		350
Purchases ledger control account		895			
Rent	4,000				
Sales		66,850			
Sales ledger control account	2,800				
Closing stock - balance sheet			2.1b	425	
Closing stock - profit and loss account			2.1b		425
Provision for doubtful debts adjustment			2.1c		38
Disposals			2.2a,b	2,100	600 1,575
Total	78,705	78,705		8,738	8,738

Workings:

New provision for doubtful debts = $4\% \times 2,800 = 112$
 Previous provision = 150
 Difference (reduction) = 38

Task 2.3

Viola Tarlo

Profit and loss account for the year ended 30 September 2009

Workings		£	£
	Sales		66,850
	Opening stock	1,030	
24,150 – 350	Purchases	23,800	
	Closing stock	(425)	
	Cost of goods sold		(24,405)
	Gross profit		42,445
	Add:		
	Profit on disposal of fixed asset		75
	Decrease in provision for doubtful debts		38
	Less: Expenses		
	Delivery expenses to customers	3,800	
2,875 + 750	Depreciation charge	3,625	
2,000 + 500	General expenses	2,500	
1,620 – 500	Office expenses	1,120	
	Rent	4,000	
			(15,045)
	Net profit		27,513

Task 2.4

Viola Tarlo

Balance sheet as at 30 September 2009

Workings		£	£	£
	Fixed assets			
15,000 + 3,000 – 2,100	Equipment		15,900	
7,850 + 750 – 1,575	Accumulated depreciation		(7,025)	
			<hr/>	8,875
	Current assets			
	Stock		425	
2,800 – 112 (see page 10 for working)	Trade debtors (sales ledger control)		2,688	
	Cash		200	
			<hr/>	3,313
	Current liabilities			
	Trade creditors (purchases ledger control)	895		
1,230 – 2,400	Bank overdraft	1,170		
			<hr/>	(2,065)
	Net current assets			<hr/> 1,248
	Net assets			<hr/> 10,123
	Financed by:			
	Opening capital			2,960
	Net profit			27,513
20,000 + 350	Drawings			(20,350)
				<hr/> 10,123

Task 2.5

(a) According to SSAP9, stock should be valued at the lower of cost and net realisable value (NRV).

(b)

Pies up to 3 days old	80	x £1.25	£100
Pies 4-5 days old	50	x £1.10	£55
Pies over 5 days old	14	x £0.00	£0 (non-zero value = E)
Total			<u>£155</u>

(c)

Original valuation	£180
Revised valuation	£155
Reduction in valuation	<u>£25</u>

(d) The gross profit would decrease, as the closing stock valuation is lower.

Intermediate level Maintaining financial records and preparing accounts (FRA)

Level 3 Diploma for Accounting Technicians (QCF) Financial accounting (FRA)

December 2009

General comments

Section 1 presented a first year partnership with incomplete records and in Section 2 students were required to deal with the disposal of a fixed asset, final accounts adjustments and to prepare a profit and loss account and balance sheet for a sole trader. In both sections students were asked to display their knowledge and understanding by producing written explanations as well as figures.

Most students now show workings for their answers. This enables more marks to be given in the case of a wrong answer, and is a good habit for the workplace.

The improvement in the general standard of double entry accounting, including accurate account names, has been maintained, which is very pleasing. This is important and will continue to be tested.

Students should not use pencil or red ink in their answers. If candidates are untidy this is not specifically penalised, but if it means that workings cannot be followed or words and figures cannot be read, marks will be lost, so students should try to present a neat and tidy exam paper. It is important that students communicate clearly so that the recipient of the information knows exactly what they mean. These are standards that would be expected in the workplace.

Section 1

Task 1.1

Students were required to prepare sales and purchases ledger control accounts from the incomplete records; the missing figures being sales and discounts received. This was designed to test the practical application of students' knowledge and understanding of double entry accounting and control accounts, as well as being able to extract the correct information from incomplete records. As this is fundamental, and frequently tested, students were expected to make entries on the correct side of the accounts and to label them accurately with the appropriate opposite entry. Most students did this very well. Those who got full marks entered the figures and the labels correctly. When mistakes were made they tended to be either minor labelling errors, or a complete lack of understanding. A few students did not note the significance of the business being a new one and inserted opening as well as closing balances. Occasionally mistakes resulted in a discounts received figure in (b) that was not feasible. Students should look to see if their answers are reasonable; clearly a figure for discounts almost as big as the actual purchases figure cannot be correct.

Task 1.2

In this task students were required to prepare the opening capital accounts for the partnership, including the introduction of cash and a vehicle. This was designed to test students' understanding of partnership capital accounts and that capital introduced is not always in the form of cash. Students were expected to make

entries on the correct side and with appropriate labels. The task was generally well done although some entries were made on the wrong side and the vehicle was often omitted. A significant number of candidates included drawings, which was not correct and was therefore penalised.

Task 1.3

This task was a simple one testing the calculation of depreciation. Students were expected to note that as it was the first year of trading, the reducing balance calculation is based on the cost of the fixed asset. Most gained full marks, though a significant minority calculated the depreciation as if it were the second year of trading.

Task 1.4

This task tested the application of the accruals concept with a prepayment adjustment in a T-account in (a) and an accrual in a calculation in (b). Students were expected to be able to adjust the expense accounts accordingly, making a pro-rata adjustment in (a) and entering figures on the correct side and with appropriate labelling. There were many errors regarding the pro-rata adjustment and a lot of confusion about which side of the account to use in (a). Performance in (b) was better, as it did not require the T-account or the calculation.

Task 1.5

Journal entries are often tested in Section 2 but this time a single journal entry was included in Section 1 to enable the testing of a narrative, as well as the correct entries for a bad debt write-off. This was followed in (b) by a test of knowledge and understanding regarding the difference between writing off a bad debt and making a provision for doubtful debts. Students were expected to complete the journal pro-forma correctly and then make distinctions between the two types of adjustment. In (a) the correct accounts were not always selected, common mistakes being to use the provision for doubtful debts account. Entries were usually the right way round. Labelling of the sales ledger control account was often not precise enough. The narrative was usually satisfactory, though some were too brief (for example, "bad debt") and some were not narratives in the accounting sense, but explanations of what had been done, demonstrating that the student had no understanding of the meaning or purpose of a narrative.

It was pleasing that in (b) most students were very clear about the difference between a bad debt and a provision for doubtful debts and explained it satisfactorily.

Task 1.6

The production of a trial balance from the preceding incomplete records is a demanding task requiring full understanding of the tasks already performed. It tests double entry, whether students can pull together information from disparate sources, and whether accounts have debit or credit balances. Some students were able to produce correct, balancing trial balances, which was very pleasing, and the majority were able to make a very good attempt. The most common mistakes were confusing bank payments with sales and purchases and control accounts, omitting accounts (such as the bad debt adjustment, discount received, accrual and prepayment, depreciation or accumulated depreciation), not bringing in the correct own figures from task 1.2 and unclear labelling of the two depreciation accounts. Those students who are very weak in this area enter many debits and credits on the wrong side. There are plenty of past papers available, all with this task in Section 1, so students should prepare by practising as many as possible.

Task 1.7

This was a task to test knowledge and understanding of FRS15 and FRS18. Candidates were expected to give the correct technical definition of depreciation, though not necessarily in FRS15 terms. Therefore references to depreciation being to reflect the market value of a fixed asset, to enable the calculation of profit or loss on sale or when to sell a fixed asset, did not gain any credit. These were common alternatives to the correct response, though it was pleasing that many were able to explain the true purpose of depreciation. The answers to (b) were mostly correct, but many students were not able to select the correct two responses to (c).

Section 2

Task 2.1

This task tested whether students knew how to make year-end adjustments in the adjustments column of an ETB. This also, of course, tests double-entry accounting. The expectation was for students to put the correct figures against the correct accounts in the correct column. This was generally very well done, with most students able to make the correct adjustments. The most common error was to use the final balance on the provision for doubtful debts account as the adjustment, rather than the difference between the closing figure and the opening figure.

Task 2.2

The acquisition and disposal of a fixed asset by part-exchange was tested in this task, first by leading students through the calculations required and then by asking for the double entry by use of the adjustment columns of the ETB. Parts (a) to (d) were very well done by most students. The positioning of figures in the ETB to reflect the acquisition, disposal and depreciation was not so confidently completed. Some made incomplete entries, and many omitted the bank adjustment (simple totalling of the columns should have made this obvious). Even students with a correct disposal account in the workings were not always able to make all the correct entries. There is still confusion over this part of the Standards. Many students need to work hard to improve their performance in this area.

Task 2.3

A full profit and loss account was required in this task, and a proforma was not provided. This was to test whether students could accurately extract the correct adjusted balances from task 2.2 and produce a basic profit and loss account. A workings column was provided and this should have been used to show how adjusted figures were calculated, though it was too often ignored (incorrect figures without workings cannot be given any credit). Students were expected to produce a profit and loss account with the correct accounts in good form, showing cost of goods sold, gross profit and net profit. It was pleasing to see many correct or almost correct profit and loss accounts, with good form and accurate figures. The most common errors were omission of the profit on disposal and adjustment for provision for doubtful debts and the inclusion of drawings and the provision for doubtful debts. Where the disposal and provision for doubtful debts adjustments were included, they were not very often in the correct position (that is, included as a deduction from expenses instead of an addition to gross profit) or included as an expense instead of an income, even when labelled "profit on disposal". A very few students did not show any understanding of what a profit and loss account should look like, for example by simply listing balances.

Task 2.4

For the same reasons, following the profit and loss account a balance sheet was required, also without a proforma. Students were expected to extract the correct adjusted accounts from task 2.2; showing key headings such as fixed assets, current assets, and so on. The performance on this task was also good, though not as strong as the profit and loss account. The provision for doubtful debts was often shown as a liability, and the bank overdraft as a negative current asset. A very few students did not show any understanding of what a balance sheet should look like, for example by simply listing balances.

Task 2.5

This task was designed to test students' knowledge and understanding of SSAP9 and its application in a practical context. This was a new presentation of data and performance reflected the fact that students were unable to apply their knowledge to a novel situation, which was disappointing. Most students were able to answer (a) correctly or at least express the idea that the "lowest" figure should be taken, but did not then apply that knowledge in (b), by valuing pies at selling price for example, and failing to note that the oldest pies were worthless. Credit was given in (c) and (d) for answers consistent with (b).