Mock Exam One

AAT L3 Final Accounts Preparation

Contents **Page**

This practice assessment is one of a set of five AAT mock practice assessments which have been published for this subject. They are produced by expert AAT tutors to ensure real AAT exam style and real AAT exam standard tasks and ensure the best chance of success.

All practice assessments are relevant for the current syllabus.

Our AAT team worked extremely long hours to produce these practice assessments. Distributing our digital materials such as uploading and sharing them on social media or e-mailing them to your friends is copyright infringement.

We hope very much that you enjoy this AAT mock practice assessment and wish you the very best for your exam success!

For feedback please contact our team aatlivelearning@gmail.com

Mock Exam One

AAT L3 Final Accounts Preparation

Assessment information:

You have **2 hours** to complete this practice assessment.

This assessment contains **6 tasks** and you should attempt to complete **every** task.
Each task is independent. You will not need to refer to your answers to previous tasks.
Read every task carefully to make sure you understand what is required.

The standard rate of VAT is 20%.

Where the date is relevant, it is given in the task data.
Both minus signs and brackets can be used to indicate negative numbers **unless** task instructions say otherwise.

You must use a full stop to indicate a decimal point. For example, write 100.57 not 100,57 or 100 57

You may use a comma to indicate a number in the thousands, but you don't have to. For example, 10000 and 10,000 are both acceptable.

Task 1 (15 marks)

This task is about reconstructing ledger accounts.

You are working on the accounting records of a sole trader to the year ended 31 March 20X8.

You have the following information:

Day book summaries	**Goods £**	**VAT £**	**Total £**
Sales	145,000	29,000	174,000
Sales returns	500	100	600
Purchases	24,780	4,956	29,736
Purchase returns	896	179	1,075
Discounts allowed	Not available		
Further information	**Net £**	**VAT £**	**Total £**
Motor expenses	14,329	2,866	17,195

- Motor expenses are not processed through the purchase daybook, all VAT is recoverable.
- Cash Purchases of £4,500 were made, plus VAT at 20%. The total paid was posted to the purchases account for the period.
- All sales are on credit terms.
- A contra entry of £2,500 was made between the sales ledger and purchase ledger during the year.
- The trader took advantage of any prompt payment discounts whenever offered.

Balances as at	**31 March 20X7 £**	**31 March 20X8 £**
Trade receivables	24,000	42,450
Trade payables	6,550	17,880
Closing inventory	5,000	8,900
Bank	3,402 credit	not available
VAT	12,341 credit	not available

Receipts and payments recorded in the bank account included:

Amounts to suppliers	15,000
Amounts from credit customers	120,925
Cash purchases	5,400
HMRC - VAT payment	15,731
Wages	20,000
Drawings	44,000
Motor expenses	17,195
Loan repayment	12,336
Bank charges	567

Picklist: Set off (contra), Balance b/d, Balance c/d, Bank, Cash sales, Drawings, Cash purchases, Motor expenses, General ledger, inventory, Loan, Purchase daybook, Rent, Wages, Sales daybook, Sales returns daybook, Purchase returns daybook, Discounts allowed, Discounts received, Bank charges, VAT.

(a) Using only the figures supplied, find the missing discounts allowed figure by preparing the sales ledger control account for the year ended 31 March 20X8.

(5 marks)

Sales ledger control account

	£		£
	0		0

(b) Using only the figures supplied, find the closing balance on the VAT control account for the year ended 31 March 20X8.
Note: the business is not charged VAT on wages or bank charges.

(8 marks)

VAT control account

	£		£
	0		0

The totals recorded in the cash book for the year ended 31 March 20X8 were:

Receipts	£120,925
Payments	£130,229

(c) Assuming there are no year adjustments, what would be the opening bank account balance in the general ledger as at 1 April 20X8. Do NOT enter a negative figure.

(2 marks)

Bank account balance 1 April 20X8 £

Picklist: debit or credit

End of Task

Task 2 (15 marks)

This task is about incomplete records and applying ethical principles when preparing accounts.

(a) Show whether the following is TRUE or FALSE.

(1 mark)

Mark-up precentage maybe calculated as: $\dfrac{\text{Gross profit}}{\text{Sales}}$ x 100%

True	☐
False	☐

You are a trainee accounting technician that prepares final accounts for a number of sole trader businesses.

You have the following information about a business for the year ended 31 August 20X8.

(b) Using the information below, complete the following tasks.

(9 marks)

- Sales for the year inclusive of VAT was £240,000.
- The business operates with a sales margin of 50%.
- Opening inventory at the start of the year was £52,000.
- Purchases for the year inclusive of VAT was £72,000.

(i) Calculate the cost of goods sold for the year ended 31 August 20X8.

£ ☐

Due to a fire most of the closing inventory was destroyed with a salvageable value of only £3,500 remaining,

(ii) Calculate the value of the closing inventory destroyed in the fire.

£ ☐

A trader is allowed by its suppliers to settle its accounts 60 days after purchase is made.

(c) Which of the following is most likely to be the total on the purchase ledger control account at the end of the financial year.

(2 marks)

£15,000	☐
£10,000	☐
£5,000	☐

You are working as an assistant to the management accountant of a client. The management accountant has asked you to post a journal of £5,900 from motor vehicle repairs to motor vehicles within non-current assets.

You have checked the details of the invoice that was paid and feel there is no justification to make such a posting.

(d) Which ONE of the following is NOT a likely response to the management accountants request.

(3 marks)

Seek guidance from your practice manager regarding the posting of this journal.	☐
Discuss the matter with the management accountant to see if there is a valid case for posting this journal.	☐
Post the journal without question as the management accountant is your client.	☐

End of Task

Task 3 (18 marks)

This task is about final accounts for a sole trader. A trial balance is shown below for XYZ Traders and all necessary adjustments have been made.

The following accounting policies are used by the business:

- Sales revenue should include sales returns, if any
- Purchases should include purchase returns and carriage inwards, if any

(a) Complete the following:

(2 marks)

(i) Calculate the sales revenue figure to be included in the statement of profit or loss for XYZ Traders.

£ [ ]

(ii) Calculate the purchase figure to be included in the statement of profit or loss for XYZ Traders.

£ [ ]

(b) Prepare the statement of profit or loss for XYZ Traders for the year ended 31 January 20X8. If necessary, use a minus sign to indicate ONLY the following:

- **the deduction of an account balance used to make up costs of goods sold**
- **a loss for the year.**

(13 marks)

Picklist: Sales Revenue, Opening Inventory, Purchases, Carriage Inwards, Gain on disposal of van, Sales Returns, Rent received, Office equipment at cost, Office equipment - accumulated depreciation, Discounts received, Purchase ledger control account, Depreciation charges, Accrued expenses, Telephone expenses, Sales ledger control account, General expenses, Bank, Wages, Irrecoverable Debts, Purchase returns, HMRC liability, Office expenses, Capital, Drawings, Closing inventory.

Statement of profit or loss for the year ended 31 January 20X8

	£	£
Sales Revenue		
Cost of goods sold		
Gross profit		
Add:		
Total income		
Less:		
Total expenses		
Profit/loss for the year		

Trial balance as at 31 January 20X8

	DR £	CR £
Sales Revenue		68,922
Opening Inventory	4,555	
Purchases	36,927	
Carriage Inwards	450	
Gain on disposal of van		704
Sales Returns	1,530	
Rent received		7,800
Office equipment at cost	12,000	
Office equipment - accumulated depreciation		4,000
Discounts received		244
Purchase ledger control account		6,000
Depreciation charges	2,000	
Accrued expenses		65
Telephone expenses	374	
Sales ledger control account	8,977	
General expenses	4,730	
Bank		6,578
Wages	7,600	
Irrecoverable Debts	624	
Purchase returns		781
HMRC liability		5,044
Office expenses	16,799	
Capital		4,218
Drawings	7,790	
Closing inventory	4,500	4,500
TOTAL	**108,856**	**108,856**

You have the following information about another sole trader:

- The sole trader had taken business goods at a resale value of £1,300 during the year for personal use.
- Profit for the year ended 31 July 20X5 was £13,228.

(c) Complete the capital account for the year ended 31 July 20X5. Show clearly the balance carried down to the next financial year.

(3 marks)

Picklist: Balance b/d, Balance c/d, Bank, Capital, Drawings, Expenses, Profit for the year, Loss for the year, Statement of financial position, Suspense.

Capital

	£		£
		Balance b/d	19228
	0		19228

End of Task

Task 4 (16 marks)

(a) Show whether the following statements about a sole trader are TRUE or FALSE.

(4 marks)

	TRUE	FALSE
The presentation of final accounts for sole traders has no definitive format.	☐	☐
Sole traders may have to rely on their personal assets and business loans to secure financing to operate.	☐	☐
Sole traders have to file a business tax return for the business's profits and losses.	☐	☐
A sole trader has control over every aspect of their business.	☐	☐

(b) Drag and drop the boxes below to select whether each user is an internal or external user of financial statements.

(4 marks)

	Internal user	External user
Shareholders		
Directors		
Trustees		
Bank		

(c) Which of the following types of organisation do not have owners which have limited liability. Choose ONE answer only.

(3 marks)

LLP ☐

Sole trader ☐

Plc ☐

Ltd ☐

(d) Which ONE of the items below prescribes how property, plant and equipment should be accounted for by an organisation adopting IFRS.

(2 marks)

IAS 1 ☐

IAS 2 ☐

IAS 16 ☐

(e) Reconciliation of a cash book to the bank statements, or a purchase ledger account to a supplier statement, would support which one of the qualitative characteristics of useful financial information. Choose ONE only.

(3 marks)

a) Verifiability
b) Timeliness
c) Comparability
d) Relevance

End of Task

Task 5 (15 marks)

You have been given the following information about a partnership business.

The partners are Albert and Brenda.
The financial year ends on the 31 March.
There is no interest on capital or drawings for the partners.

Figures relating to the year ended 31 March 20X7 were as follows:

	Albert	**Brenda**
Profit share	70%	30%
Drawings for the year	£25,000	£60,000
Salary (per month)	£1,500	£2,000
Sales commission earned for the year	£7,560	£3,450

Profit relating to the year ended 31 March 20X7 was £97,000.

(a) Prepare a partnership appropriation account for the year ended 31 March 20X7. Use a minus sign for deductions or where there is a loss to be distributed. You must enter zeros where appropriate in order to obtain full marks.

(10 marks)

Picklist: Interest on capital – A, Interest on capital – B, Share of residual profit – A, Share of residual profit – B, Share of residual loss – A, Share of residual loss – B, Drawings – A, Drawings – B, Salary – A, Salary – B, Sales commission – A, Sales commission – B.

Partnership appropriation account for the year ended 31 March 20X7

	£
Profit for appropriation	
Residual profit available for distribution	
Share of residual profit or loss:	
Total residual profit or loss distributed	

Brenda had a current account balance in the general ledger of £340 debit balance as at the 1 April 20X6. Brenda took drawings of £60,000 from the partnership business for the year ended 31 March 20X7.

(b) Complete the following sentence about Brenda's current account:

(5 marks)

Brenda's current account will be shown in the [ ]

Her current account as at 31 March 20X7 would be a [ ] of £ [ ]

Picklist 1: Statement of financial position, Statement of profit or loss.
Picklist 2: Debit, Credit.

End of Task

Task 6 (21 marks)

You have the following information about a partnership business.

Burt, Roger and Wendy have been the owners of the partnership for many years.

On 31 August 20X5, Wendy retired from the partnership.

Goodwill was valued at £80,000 and has not yet been entered in the accounting records.

Profit share before retirement:	
Burt	one quarter (1/4)
Roger	one half (1/2)
Wendy	one quarter (1/4)

Profit share after retirement:	
Burt	one half (1/2)
Roger	one half (1/2)

Goodwill is to be introduced into the accounting records on 31 August 20X5 with the partnership change and then immediately eliminated.

(a) Prepare the goodwill account for the year ended 31 August 20X5, showing clearly the individual entries for the introduction and elimination of goodwill.

(5 marks)

Picklist: Balance b/d, Balance c/d, Bank, Capital - Burt, Capital - Roger, Capital - Wendy, Drawings, Current - Burt, Current - Roger, Current - Wendy, Goodwill.

Goodwill account

	0		0

This task is about final accounts for partnerships.

You are preparing the statement of financial position for TS Traders for the year ended 31 October 20X6.

The partners are Craig and David, who share profits or losses in the ratio of 3:1. This is the only partnership agreement.

You have the final trial balance below. All of the necessary year-end adjustments have been made, except for the transfer of £46,119 profit to the current accounts of each partner for the year ended.

(b) Prepare the statement of financial position for the partnership as at 31 October 20X6. Do NOT use brackets, minus signs or dashes. Only whole pounds (£) must be entered do NOT use decimals.

(16 marks)

Trial balance as at 31 October 20X6

	DR £	CR £
Computer equipment at cost	5,960	
Computer equipment - accumulated depreciation		2,342
Current - Craig		5,622
Current - David	341	
Sales revenue		98,894
Discounts allowed	564	
Opening Inventory	1,344	
Purchases	34,552	
Loss on disposal of motor vehicle	350	
Interest paid	1,432	
Capital - Craig		24,000
Capital - David		15,000
Discounts received		54
Purchase ledger control account		27,380
Depreciation charges	2,342	
Accrued expenses		400
Advertising	3,206	
Sales ledger control account	32,600	
Carriage outwards	3,269	
Bank	54,325	
Closing inventory	2,430	2,430
Staff wages	4,000	
Purchase returns		800
VAT		4,793
Rent	5,000	
Drawings - Craig	20,000	
Drawings - David	10,000	
TOTAL	**181,715**	**181,715**

Picklist: Computer equipment at cost, Computer equipment - accumulated depreciation, Current accounts, Sales revenue, Discounts allowed, Inventory, Purchases, Loss on disposal of motor vehicle, Interest paid, Capital accounts, Discounts received, Depreciation charges, Accrued expenses, Advertising, Trade receivables, Trade payables, Carriage outwards, Bank, Staff wages, Purchase returns, VAT liability, Rent , Drawings.

Statement of financial position as at 31 October 20X6

	Cost £	Accumalated depreciation £	Carrying amount £
Non-current assets			
Current assets			
Current liabilities			
Net current assets			
Net assets			
Financed by	**Craig**	**David**	**Total**

End of Task

1 Mock Exam One - Solutions

AAT L3 Final Accounts Preparation

Task 1 (15 marks)

You may find the following tutor notes useful when answering exam practice tasks.

Elements of the financial statements

Five elements make up the general ledger accounts and financial statements of a business.

Assets

A resource controlled by the business as a result of past events and from which future economic benefits (money) are expected to flow to the business.

- Premises, machines, motor vehicles, office equipment or furniture and fittings.
- Inventory currently for resale.
- Trade receivables (money to be ‘received’).
- Money in the bank.
- Cash in hand.

Liabilities

A present obligation of the business arising from past events, the settlement of which is expected to result in an outflow from the business.

- VAT owed to HMRC
- Wages owed to staff
- Bank loans and overdrafts
- Trade payables (money to be ‘paid’).

Capital

The residual interest (whatever is left) from the assets of the business after deducting all of its liabilities. Total assets less total liabilities is equal to capital (also called ‘net assets’) of the business. This balance represents what is owed and accumulated by the business to its owner. A separate account for drawings can also be maintained in the general ledger, drawings is money taken from the business by the owner and rather than reducing the owners capital account for the money taken, a drawings account is kept as a separate account because it provides more information.

Income

Money earned or received by the business from the sale of goods or services that is makes or sells (its trade), or from other investments or trade sources.

- Cash sales (sales not on credit).
- Credit sales (sales on credit).
- Rent received from ownership and rental of premises.
- Bank interest received.
- Discounts received (PPD) from paying credit suppliers early.

Expenses

Costs incurred or paid for by the business in the normal course of trade in order to earn income. The cost of goods sold and other expenses must be matched with the sales revenues earned in the same period.

- Cash purchases (inventory purchases for resale and not on credit).
- Credit purchases (inventory purchases for resale and on credit).
- Rent payments (if the business is renting a property).
- Staff wages
- Motor vehicle running costs.
- Advertising.
- Depreciation such as wear and tear or loss of value to long-term assets such as machines or motor vehicles.
- Bank interest and charges.
- Discounts allowed (PPD) to credit customers who pay early.
- Accountancy and legal services.

Income and expenses are used to work out the amount of profit the business has generated. Any profits are owed to the owner of the business and increase the capital account of the owner.

DEAD CLIC

Don't get clouded in the double entry logic, ledgers are balances kept for the five elements of the financial statements and we are increasing or decreasing these balances according to the rules of double entry.

Important double entry terminology

DEAD CLIC defines what is the 'normal balance' or the natural state for a T account (general, sales or purchase ledger account).

DEAD CLIC is an acronym which gives the elements of financial statements and whether each element would be a debit or credit balance overall within a double entry ledger system. It can be used for determining the correct debit or credit balance but the element must be determined first. It can also be used to determine the correct double entry to increase or decrease an account balance.

DEAD CLIC

Debit	**Credit**
Expenses	Liabilities
Assets	Income
Drawings	Capital

The elements	Natural state	Increase balance (as per the natural state)	Decrease balance (opposite to natural state)
Income	Credit	Credit	Debit
Expenses	Debit	Debit	Credit
Assets	Debit	Debit	Credit
Liabilities	Credit	Credit	Debit
Capital	Credit	Credit	Debit

Day books (the books of 'original' or 'prime entry')

The books of prime entry keep a record of a business's transactions e.g. invoices, credit notes and bank transactions and are used to generate entries within the general ledger as part of a double entry bookkeeping system. In a manual system these are the day books of first entry occurring every day for accounting transactions, before the day books are totalled and the totals then posted to the general ledger accounts.

Accounting software completes the transfer of data from the books of prime entry to the general, sales and purchases ledgers automatically, however your exam tasks will be in the context of a manual book keeping system. You need to be able to transfer data from the books of prime entry (day books) to the relevant accounts in the general, sales or purchases ledgers.

Day books (the books of 'original' or 'prime entry')

- Sales Day Book (SDB records sales invoices sent to credit customers).
- Sales Returns Day Book (SRDB records credit notes given to reverse sales invoices sent to credit customers, due to goods returned from or disputes by customers).
- Discounts Allowed Day Book (DADB records credit notes given to reverse sales invoices sent to credit customers, due to prompt payment discounts allowed to settle their invoices earlier).
- Purchase Day Book (PDB records purchase invoices received from credit suppliers).
- Purchase Returns Day Book (PRDB records credit notes received from suppliers to reverse purchase invoice amounts, due to goods returned to or disputes with suppliers).
- Discounts Received Day Book (DRDB records credit notes received from suppliers to reverse purchase invoice amounts, due to prompt payment discounts allowed received by suppliers to settle purchase invoices earlier).
- Cash Book (CB bank and cash transactions) record all other cash and bank transactions of the business.
- Petty Cash Book (PCB records very small cash transactions of the business).
- Journal Book (JN records postings made to the general ledger for the correction of errors or omissions and for period end adjustments not recorded in any of the other day books).

The sales (receivables) ledger control account

A proforma sales ledger control account (SLCA) is included below to familiarise yourself with the DR and CR entries. The summarised totals including VAT are posted from the daybooks (books of prime entry) to this control account for each accounting period. All entries are made including VAT since this sales control account keeps a summarised total of all total amounts owing from credit customers.

Exam tasks can require selection from picklists to complete entries and balance ledger accounts. Picklist selection for narratives could be the postings made from the day books (alternative 1), or the names of the general ledger accounts where the other side of the double entry would be posted to (alternative 2).

The balance b/d is on the debit side since a SLCA is an asset (customers who owe money to the business) and only credit sales not cash sales are recorded in a SLCA.

Alternative 1

Sales ledger control account

	£		£
Balance b/d	X	Discounts allowed daybook (DADB)	X
Sales daybook (SDB)	X	Sales returns daybook (SRDB)	X
		Bank (CB)	X
		Set-off entries (contras)	X
		Irrecoverable debts	X
		Balance c/d	X
			X
Balance b/d	X		

Alternative 2

Sales ledger control account

	£		£
Balance b/d	X	Discounts allowed	X
Sales	X	Sales returns	X
		Bank	X
		PLCA (set-off entries)	X
		Irrecoverable debts	X
		Balance c/d	X
			X
Balance b/d	X		

A set-off (contra) entry occurs when you have a customer who orders goods from a business and also supplies goods to the same business. The business would have a customer sales ledger account for amounts ‘owed to it’ and a supplier purchase ledger account for amounts ‘owed by it’.

Agreements are often made in these cases to ‘off set’ balances rather than pay or receive through the bank twice for both parties. For example, you owe a supplier £1,200 and the same supplier owes you £2,000 as a customer, rather than both parties arranging payment, the supplier could pay you £800 and nothing would be left further to do. After the £800 is paid and posted (DR Bank £800 and CR SLCA £800) there is still £1,200 recorded as owed to and owed from the supplier, this amount would remain in both the sales and purchases ledgers and needs to be written out of the ledgers.

A set-off (contra) entry of £1,200 would be posted to offset the balances remaining. The double entry is always to credit the sales ledger control (and sales ledger) account and debit the purchase ledger control (and purchase ledger) account.

The purchase (payables) ledger control account

A proforma purchase ledger control account (PLCA) is included below to familiarise yourself with the DR and CR entries. Summarised totals including VAT are posted from the daybooks (books of prime entry) to the control account for each accounting period. All entries are made including VAT since the purchases control account keeps a summarised total of all balances owed to credit suppliers.

The balance b/d is on the credit side since a PLCA is an liability (suppliers who the business owes money to) and only credit purchases not cash purchases are included in a PLCA.

Exam tasks can require selection from picklists to complete entries and balance ledger accounts. Picklist selection for narratives could be the postings made from the day books (alternative 1), or the names of the general ledger accounts where the other side of the double entry would be posted to (alternative 2).

Alternative 1

Purchase ledger control account

	£		£
Bank (CB)	X	Balance b/d	X
Discounts received daybook (DRDB)	X	Purchases daybook (PDB)	X
Purchases returns daybook (PRDB)	X		
Set-off entries (contras)	X		
Balance c/d	X		
	X		X
		Balance b/d	X

Alternative 2

Purchase ledger control account

	£		£
Bank	X	Balance b/d	X
Discounts received	X	Purchases	X
Purchases returns	X		
SLCA (set-off entries)	X		
Balance c/d	X		
	X		X
		Balance b/d	X

The VAT control account

The purpose of a VAT control account is to record all VAT payable on sales (outputs of the business) and record VAT reclaimed from purchases/expenses (inputs to the business), an accurate VAT balance can then be calculated, and either paid to (or reclaimed from) Her Majesty's Revenue and Customs (HMRC).

A proforma VAT control account is included below to familiarise yourself with the debit and credit entries. The summarised totals for VAT amounts are posted from the daybooks (books of prime entry) to the VAT control account for each accounting period, the account is used to work out any VAT owed to HMRC, or owed from HMRC.

The below example assumes VAT is a liability since the balance b/d starts on the credit side indicating VAT is owed to HMRC. VAT can be a debit rather than a credit balance, since a business may reclaim back ('offset') more VAT for a period than it is obliged to pay over to HMRC, in which case it is due a refund from HMRC ('asset' not liability in this case).

Think of the debit and credit entries below as what increases VAT to be paid (credits increases liability) such as VAT on sales, and what decreases VAT to be paid (debits decrease liability) such as VAT reclaimed on purchases or expenses. You can then work from a 'sales' or 'purchases' perspective, to deal with more unusual transactions which have opposite entries. For example, if VAT on purchases is a debit (reduction in liability as you reclaim VAT on purchases), then purchases returns or discounts received by suppliers (both credit notes) would be a credit (increasing the liability). The reason would be that the VAT on the credit notes is offset against the VAT reclaimed on purchase invoices, overall, less VAT is therefore being reclaimed.

VAT control account

	£		£
Purchases daybook (PDB)	X	Balance b/d	X
Cash purchases (CB)	X	Sales daybook (SDB)	X
Cash expenses (CB)	X	Cash sales (CB)	X
Sales returns daybook (SRDB)	X	Purchases returns daybook (PRDB)	X
Discounts allowed daybook (DADB)	X	Discounts received daybook (DRDB)	X
Bank (payment of VAT to HMRC)	X	Bank (refund of VAT from HMRC)	X
Balance c/d	X		
	X		X
		Balance b/d	X

Similar to the sales or purchases ledger control accounts, the VAT control account may use other narratives for making entries within the ledger, such as abbreviations for day books using for example 'SDB' rather than sale daybook, or the names of general ledger accounts where the other side of the double entry posting is made.

The settling of credit does not give rise to a VAT entry. Bank receipts from credit customers (DR Bank CR SLCA) and bank payments to credit suppliers (DR PLCA CR Bank) create no entries for VAT in the VAT control account. The VAT would have already been recorded from the invoices and credit notes before credit is settled. Set off (contra) entries (DR PLCA CR SLCA) are another example where no VAT entry is made to the VAT control account. Set off (contra) entries offset balances when a customer (SLCA) is also at the same time a supplier (PLCA).

Totalling and balancing ledger accounts

1. Look at both sides of the ledger account and find the side which has the biggest total amount (debits or credits).
2. Add up the 'total' of all the entries on the side that has the biggest total amount and put this 'total' amount on both sides of the ledger account.
3. Add up all the entries on the side of the ledger account that had the smallest total amount.
4. Work out on the side that had the smallest total amount, the difference between the total amount entered and the other entries made on this side. This is the balance carried down (c/d) at the end of the period.
5. The balance c/d is entered on the side of the ledger account that had the smallest total amount to ensure that both total amounts entered on either side of the ledger account agrees. This as an arithmetical control and considered good practice in manual ledger accounting.

The balance c/d is only a balancing figure to ensure both sides of the ledger account agree at the end of the period. The true debit or credit balance is brought down (b/d) on the opposite side to the balance carried down (c/d). The balance b/d is on the 1st (beginning) of the month and the balance c/d is at the end of the month 30th/31st (ignoring February).

(a) Using only the figures supplied, find the missing discounts allowed figure by preparing the sales ledger control account for the year ended 31 March 20X8.

(5 marks)

Sales ledger control account

	£		£
Balance b/d	24000	Sales returns daybook	600
Sales daybook	174000	**Discounts allowed (balance)**	**31525**
		Set off (contra)	2500
		Bank	120925
		Balance c/d	42450
	198000		198000

The missing figure for discounts allowed is £31,525 and calculated by totalling and balancing the control account, after all items including the balance b/d and balance c/d are entered in the control account.

(b) Using only the figures supplied, find the closing balance on the VAT control account for the year ended 31 March 20X8.
Note: the business is not charged VAT on wages or bank charges.

(8 marks)

VAT control account

	£		£
Sales returns daybook	100	Balance b/d	12341
Purchase daybook	4956	Sales daybook	29000
Motor expenses	2866	Purchase returns daybook	179
Cash purchases (20% x £4,500) =	900		
Bank	15731		
Balance c/d	16967		
	41520		41520

(c) Assuming there are no year adjustments, what would be the opening bank account balance in the general ledger as at 1 April 20X8. Do NOT enter a negative figure.

(2 marks)

Bank account balance 1 April 20X8	£	12706
Picklist: debit or credit		credit

The opening balance 1 April 20X8 would be the closing balance for the year ended 31 March 20X8.

- The opening balance 1 April 20X7 is a credit balance of £3,402 and therefore a liability (overdrawn).
- Receipts (DR) and payments (CR) which would include VAT where relevant have been entered below in a ledger workings.
- The end balance is £12,706 and the balance c/d on the debit side of the account indicating when the balance is b/d to its natural state it would be a liability (still overdrawn, so overall a credit balance).

Bank

	£		£
Receipts banked	120925	Balance b/d	3402
Balance c/d	12706	Payments made	130229
	133631		133631

Task 2 (15 marks)

Tips for dealing mark-up and sales margin:

A trading account is used to calculate the amount of gross profit earned by a business; it deducts from sales earned only the cost of goods sold for the period. Deductions for other expenses such as rent or salaries are made after gross profit to calculate the net profit for the period.

Trading account

	£	£
Sales		20000
Less cost of sales		
Opening inventory	4000	
Purchases	17000	
	21000	
Closing inventory	-3000	
Cost of goods sold		18000
Gross profit		2000

All figures in a trading account should be exclusive of VAT because the normal assumption is the business is VAT registered and therefore will post any VAT amounts to a VAT control account (liability) not to the sales (income) or purchases (expense) account.

To arrive at a cost of sales figure, opening inventory (unsold purchases in the previous accounting period) is added to purchases and closing inventory (unsold purchases at the end of the accounting period) is deducted from purchases. By adjusting purchases for inventory levels, we remove any 'cost of unsold goods' and match only the 'cost of goods sold' for the period to sales earned in the same period. This is an application of the accruals (or matching) concept.

The following shorthand can help rearrange your trading account to find certain missing figures in a question:

- Cost of sales (COS) = Opening inventory + Purchases - Closing inventory.
- Gross profit (GP) = Sales - Cost of sales.

Shorthand:

- SALES - GP = **COS**
- SALES - COS = **GP**
- COS + GP = **SALES**

Mark-up %

GP ÷ COS x 100% = mark-up %.

This is a useful profit measure since if mark-up was say 25% and cost of sales £50,000. Then 25% of £50,000 = Gross profit £12,500. It is useful to get a gross profit figure from a cost of sales figure (if you know cost of sales). Also, if you know gross profit is £12,500, then SALES = COS + GP, so £50,000 (COS) + £12,500 (GP) = SALES £62,500.

Note the mark-up as a percentage can also be proven once the above cost of sales and gross profit figures have been established GP (£12,500) ÷ COS (£50,000) x 100% = 25% mark-up.

Sales margin %

GP ÷ SALES x 100% = sales margin %.

This is a measure of gross profit as a percentage of sales. This is a useful profit measure since if sales margin was say 20% and sales £62,500. Then 20% of £62,500 = Gross profit £12,500. It is useful to get a gross profit figure from a sales figure (if you know sales). Also, if you know gross profit is £12,500, then COS = SALES - GP, so £62,500 (SALES) - £12,500 (GP) = COS £50,000.

Note the sales margin as a percentage can be proven once the above sales and gross profit figures have been established GP (£12,500) ÷ SALES (£62,500) x 100% = 20% sales margin.

Part (a)

(a) Show whether the following is TRUE or FALSE.

(1 mark)

True ☐

False ☑

Part (b)

(9 marks)

(i) Calculate the cost of goods sold for the year ended 31 August 20X8.

£ 100000

(ii) Calculate the value of the closing inventory destroyed in the fire.

£ 8500

Answer explained:

- When figures include VAT then you have 100% of the sale (or purchase) and plus 20% added for VAT, therefore in percentages you now have 120%. We would multiply by 20(%) and divide by 120(%) a VAT inclusive figure to find the VAT amount, using the fraction x 20/120, or ' x 1/6' because 20/120 rounded to the lowest common denominator is 1/6 as a fraction.
- If we took sales £240,000 ÷ 120% x 20% (or x 20/120, or x 1/6) = VAT £40,000. 20/120 is 1/6 as a fraction so we can calculate VAT by dividing sales by 6, or taking 1/6 of £240,000. Sales excluding VAT are £200,000 (£240,000 - £40,000).
- Purchases for the year inclusive of VAT is £72,000, x 1/6 = VAT amount £12,000. Purchases excluding VAT are £72,000 - £12,000 = £60,000.
- The business operates with a sales margin of 50%. Given sales are £200,000 excluding VAT, then gross profit must be 50% of £200,000 = £100,000.

Let's now compile a trading account with the figures we have so far:

Trading account

	£	£
Sales (SALES)		200000
Less cost of sales		
Opening inventory	52000	
Purchases	60000	
	112000	
Closing inventory		
Cost of goods sold (COS)		
Gross profit (GP)		100000

We can also calculate cost of sales since we have sales and gross profit. SALES - GP = COS. £200,000 SALE - £100,000 GP = £100,000 COS.

Trading account

	£	£
Sales (SALES)		200000
Less cost of sales		
Opening inventory	52000	
Purchases	60000	
	112000	
Closing inventory		
Cost of goods sold (COS)		100000
Gross profit (GP)		100000

We can now work backwards with the logic of cost of sales £100,000 above and calculate the closing inventory amount.

- Cost of sales (COS) = Opening inventory + Purchases – Closing inventory.
- £100,000 = £52,000 + £60,000 - Closing inventory.
- £100,000 = £112,000 - Closing inventory.
- Closing inventory = £112,000 - £100,000 = £12,000.

If you believe the £12,000 closing inventory is correct you can also now work forwards and calculate the £100,000 cost of sales in the trading account to check the accuracy of the workings.

Trading account

	£	£
Sales (SALES)		200000
Less cost of sales		
Opening inventory	52000	
Purchases	60000	
	112000	
Closing inventory	-12000	
Cost of goods sold (COS)		100000
Gross profit (GP)		100000

Due to a fire most of the closing inventory was destroyed with a salvageable value of only £3,500 remaining, closing inventory based a sales margin of 50% should be £12,000. £12,000 - £3,500 remaining = £8,500 closing inventory destroyed in the fire.

(c) Which of the following is most likely to be the total on the purchase ledger control account at the end of the financial year.

(2 marks)

£15,000	☐
£10,000	☑
£5,000	☐

A trader is allowed by its suppliers to settle its accounts 60 days after purchases are made. Purchases worked out earlier were £60,000. If 60 days credit is offered then the balance on the purchase ledger control account would be on 'average' £60,000 ÷ 365 days (gives purchases per day on average) x 60 days of purchases outstanding = £9,863. This figure closest to £10,000 given in the solution.

(d) Which ONE of the following is NOT a likely response to the management accountants request. Choose ONE only.

(3 marks)

To post the journal without question would be breaching the ethical principle of objectivity (scepticism is to question and not just accept someone else's opinion), professional behaviour could also be in breach as it could be 'breaking the rules' to post the transaction.

Seek guidance from your practice manager regarding the posting of this journal.	☐
Discuss the matter with the management accountant to see if there is a valid case for posting this journal.	☐
Post the journal without question as the management accountant is your client.	☑

Task 3 (18 marks)

(a) Complete the following:

(2 marks)

(i) Calculate the sales revenue figure to be included in the statement of profit or loss for XYZ Traders.

£ **67392**

It is general practice that sales (invoices) and sales returns (credit notes) are offset to show the 'net sales' as income for the year ended. £68,922 - £1,530 = £67,392.

Trial balance as at 31 January 20X8

	DR £	CR £
Sales Revenue		68,922
Sales Returns	1,530	

(ii) Calculate the purchase figure to be included in the statement of profit or loss for XYZ Traders.

£ **36596**

Trial balance as at 31 January 20X8

	DR £	CR £
Purchases	36,927	
Carriage Inwards	450	
Purchase returns		781

It is general practice that purchases (invoices) and purchase returns (credit notes) are offset (like sales) to show the 'net purchases' for the year ended, and that carriage inwards (delivery cost for purchases made) is included as additional expenses included within purchases. £36,927 + £450 - £781= £36,596.

(b) Prepare the statement of profit or loss for XYZ Traders for the year ended 31 January 20X8. If necessary, use a minus sign to indicate ONLY the following:

- **the deduction of an account balance used to make up costs of goods sold**
- **a loss for the year.**

(13 marks)

For the profit or loss account we are to identify those account balances that are either income or expenses for the period.

Tutors note: the trial balance has two adjustments for closing inventory. The DR (an asset) for closing inventory to be included in the statement of financial position and a CR (reduction to purchases expenses) for closing inventory to be included within the statement of profit or loss for the year ended.

Statement of profit or loss for the year ended 31 January 20X8

	£	£
Sales Revenue		67,392
Opening Inventory	4,555	
Purchases	36,596	
Closing inventory	-4,500	
Cost of goods sold		36,651
Gross profit		30,741
Add:		
Gain on disposal of van	704	
Rent received	7,800	
Discounts received	244	
Total income		8,748
Less:		
Depreciation charges	2,000	
Telephone expenses	374	
General expenses	4,730	
Wages	7,600	
Irrecoverable Debts	624	
Office expenses	16,799	
Total expenses		32,127
Profit/loss for the year		7,362

(c) Complete the capital account for the year ended 31 July 20X5. Show clearly the balance carried down to the next financial year.

(3 marks)

Picklist: Balance b/d, Balance c/d, Bank, Capital, Drawings, Expenses, Profit for the year, Loss for the year, Statement of financial position, Suspense.

Capital

	£		£
Drawings	1300	Balance b/d	19228
Balance c/d	31156	Profit for the year	13228
	32456		32456

Task 4 (16 marks)

(a) Show whether the following statements about a sole trader are TRUE or FALSE.

	TRUE	FALSE
The presentation of final accounts for sole traders has no definitive format.	☑	☐
Sole traders may have to rely on their personal assets and business loans to secure financing to operate.	☑	☐
Sole traders have to file a business tax return for the business's profits and losses.	☐	☑
A sole trader has control over every aspect of their business.	☑	☐

(b) Drag and drop the boxes below to select whether each user is an internal or external user of financial statements?

Internal user	External user
Directors	Shareholders
Trustees	Bank

(c) Which of the following types of organisation do not have owners which have limited liability. Choose ONE answer only.

LLP	☐
Sole trader	☑
Plc	☐
Ltd	☐

Members in a limited liability partnership (LLP) have limited liability and shareholders of a private limited company (Ltd) or public limited company (Plc). However sole traders do not have limited liability, they will be held personally liable for any obligations or debts of their own business if the business cannot afford to pay them.

(d) Which ONE of the items below prescribes how property, plant and equipment should be accounted for by an organisation adopting IFRS.

IAS 1	☐
IAS 2	☐
IAS 16	☑

International accounting standard 16 (IAS 16) concerns accounting for ‘property, plant and equipment’ (non-current assets), including recognition, determination of carrying amounts and the depreciation charges to be recognised in the financial statements. International accounting standard (IAS 1) Presentation of Financial Statements sets out the overall requirements for financial statements, including how they should be structured and presented. International accounting standard 2 (IAS 2) Inventory sets out the accounting treatment for inventories.

(e) Reconciliation of a cash book to bank statements or a purchase ledger to a supplier statement, would support which one of the qualitative characteristics of useful financial information. Choose ONE only.

Answer a) Verifiability (‘the assurance of the information’). Timeliness would mean to receive information on time for make decisions. Comparability would mean the consistency of the format of information to compare with other years or other businesses. Relevance means information is both material and useful to its users.

The qualitative characteristics of useful financial information.

- Verifiability
- Comparability
- Relevance
- Understandability
- Faithful representation
- Timeliness or.. ‘V CRUFT’.

Task 5 (15 marks)

(a) Prepare a partnership appropriation account for the year ended 31 March 20X7.
Use a minus sign for deductions or where there is a loss to be distributed.
You must enter zeros where appropriate in order to obtain full marks.

(10 marks)

	£
Profit for appropriation	97,000
Salary - A	-18,000
Salary - B	-24,000
Sales commission - A	-7,560
Sales commission - B	-3,450
Residual profit available for distribution	43,990
Share of residual profit or loss:	
Share of residual profit - A	30,793
Share of residual profit - B	13,197
Total residual profit or loss distributed	43,990

Notes:

- Salaries are given per month: Albert £1,500 x 12 months = £18,000. Brenda £2,000 per month x 12 months = £24,000.
- Drawings never go in the appropriation account (but interest on drawings would), profits are first appropriated, then partners will take drawings from their share of the profits. Drawings will be posted to the current accounts of each partner.
- After salary and commission given the residual profit is £43,990. The share agreement is Albert gets 70% and Brenda gets 30%, so £43,990 residual profit ÷ 100% x 70% = Alberts share £30,793 (and £43,990 residual profit ÷ 100% x 30% = Brenda's share £13,197).

(b) Complete the following sentence about Brenda's current account:

(5 marks)

Brenda's current account will be shown in the **Statement of financial position**.
Her current account as at 31 March 20X7 would be a of **Debit** of **£19,963**.

A current account for Brenda has been produced to help with understanding. Given it is balanced up and c/d on the credit side, the start of the next year it will be b/d as a debit balance (she is overdrawn on her current account).

Current account (Brenda)

	£		£
Balance b/d	340	Salary	24000
Drawings	60000	Sales commission	3450
		Share of residual profit	13197
		Balance c/d	19693
	60340		60340

Task 6 (21 marks)

(a) Prepare the goodwill account for the year ended 31 August 20X5, showing clearly the individual entries for the introduction and elimination of goodwill.

(5 marks)

Picklist: Balance b/d, Balance c/d, Bank, Capital - Burt, Capital - Roger, Capital - Wendy, Drawings, Current - Burt, Current - Roger, Current - Wendy, Goodwill.

Goodwill is a value for the established reputation of the partnership business. Goodwill is an asset like a property or motor vehicle it has value. But goodwill is not recognised in the books of the partnership and only considered if admitting a new partner or for the retirement of an old partner, it ensures a fair value is paid for a retiring partners share of the business.

Goodwill account

	£		£
Capital - Burt	20000	Capital - Burt	40000
Capital - Roger	40000	Capital - Roger	40000
Capital - Wendy	20000		
	80000		80000

Notes:

- **Step 1 Set up goodwill.** DR goodwill (increase an asset) and CR the existing partners' capital accounts (before retirement) using the old profit share agreement. Burt would have credited to his capital account ¼ x £80,000 = £20,000, Roger would have credited to his capital account ½ x £80,000 = £40,000, Wendy would have credited to her capital account ¼ x £80,000 = £20,000. Goodwill is now set-up.
- **Step 2 Eliminate goodwill** from the general ledger. CR goodwill (decrease an asset) and DR the partners' capital accounts (after retirement) using the new profit share agreement. Only Burt and Roger remain. Burt would have debited to his capital account ½ x £80,000 = £40,000, Roger would have debited to his capital account ½ x £80,000 = £40,000, Wendy would leave with her share of the goodwill (no entry for Wendy). Goodwill is now eliminated from the books of the business.

One saying which may help remember what to do with the goodwill account is 'in with the old and out with the new'. We put goodwill 'in' the account (Debit) using the 'old' partnership profit agreement and we take good will 'out' of the account (Credit) using the 'new' partnership profit agreement. You then take the opposite debit or credit entries to the capital accounts of each partner.

(b) Prepare the statement of financial position for the partnership as at 31 October 20X6. You need to use the figures you have calculated above. Do NOT use brackets, minus signs or dashes. Only whole pounds (£) must be entered do NOT use decimals.

(16 marks)

For the financial position we are to identify those account balances that are either assets or liabilities for the period. Assets - Liabilities = Capital (ownership). We are also representing the assets and liabilities by the capital and current account balances of each partner. The trial balance has two adjustments for closing inventory. The DR (an asset) for closing inventory to be included in the statement of financial position and a CR (reduction to purchases expenses) for closing inventory to be included within the statement of profit or loss for the year ended.

Statement of financial position as at 31 October 20X6

	Cost £	Accumulated depreciation £	Carrying amount £
Non-current assets			
Computer equipment	5,960	2,342	3,618
Current assets			
Inventory		2,430	
Trade receivables		32,600	
Bank		54,325	
		89,355	
Current liabilities			
Trade payables	27,380		
VAT liability	4,793		
Accrued expenses	400		
		32,573	
Net current assets			56,782
Net assets			60,400
Financed by	**Craig**	**David**	**Total**
Capital accounts	24,000	15,000	39,000
Current accounts	20,211	1,189	21,400
	44,211	16,189	60,400

Notes:

Profits were £46,119 and split between Craig and David, who share profits or losses in the ratio of 3:1. £46,119 ÷ 4 x 3 = Craig's share of £34,589 (rounded to the nearest pound) and £46,119 ÷ 4 x 1 = David's share of £11,530 (rounded to the nearest pound).

Trial balance as at 31 October 20X6

	DR £	CR £
Current - Craig		5,622
Current - David	341	

- Craig's current account at the beginning of the year is a CR balance b/d of £5,622, profit of £34,589 is a CR (increasing the current account balance) and drawings of £20,000 is a DR (decreasing the current account balance). So, (£5,622 + £34,589 - £20,000) = £20,211 balance c/d for the year (credit balance).
- David's current account at the beginning of the year is DR (overdrawn) balance b/d £341, profit of £11,530 is a CR (increasing the current account balance) and drawings of £10,000 is a DR (decreasing the current account balance). So, (-£341 + £11,530 - £10,000) = £1,189 balance c/d for the year (credit balance).