

L3 Preparing Financial Statements

Sample assessment and mark scheme

Sample assessment mark scheme

This mark scheme accompanies the L3 Preparing Financial Statements sample assessment in ATLAS Cloud which can be accessed via AAT's Lifelong Learning Portal.

Notes for students and training providers

This is a sample assessment and mark scheme which is reflective of the question types, depth of content coverage, the level of demand, duration and mark allocation of tasks that will be in the live assessment.

Under each sub-task, you will see a reference to the unit specification, e.g. (LO 1.4.1); this denotes the Learning Outcome, Topic Area and scope being covered in the sub-task, enabling you to identify which area of the unit specification is being assessed.

It is not designed to be used on its own to determine whether students are ready for the live assessment.

Version control

| Version no. | Publish date | Key changes |
|-------------|----------------|--------------------|
| 1.0 | September 2024 | Consultation draft |
| | | |
| | | |
| | | |

Assessment information

You have **2 hours** to complete this **Preparing Financial Statements** sample assessment.

- This assessment contains **8 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.
- The total number of marks for this assessment is **100**.
- Read every task carefully to make sure you understand what is required.
- 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 state otherwise.
- You must use a full stop to indicate a decimal point. For example, write 100.57 not 100,57 or 10057.
- 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.
- You will need to double click to enter values into a gapfill or cell within a table.

Task 1 (8 marks)

This task is about the qualities of useful information, accounting principles and the requirements of financial statements of different types of entity.

This task contains parts (a) to (c).

(a) Identify the accounting principle being described in each of the following scenarios. (3 marks)

| Scenario | Principle |
|--|--|
| Reena owns a greetings card business. When she takes a card for her own use, she records this as drawings. | <input type="text" value="Business entity"/> |
| Staplers are treated as part of stationery expenses in the statement of profit or loss, rather than having a separate expense heading. | <input type="text" value="Materiality"/> |
| Value of goods sold but not yet paid for at the year-end is included in sales revenue for the year. | <input type="text" value="Accruals"/> |

(LO 1.1.1)

(b) Identify each of the enhancing qualitative characteristics being described below. (2 marks)

| Description | Enhancing qualitative characteristic |
|---|--|
| Knowledgeable and independent observers can reach a consensus that the information is faithfully represented. | <input type="text" value="Verifiability"/> |
| Information is clearly and concisely classified, characterised and presented. This does not mean that complex information should be excluded. | <input type="text" value="Understandability"/> |

(LO 1.2.2)

(c) Identify whether the following statements are true or false. (3 marks)

| Statement | True | False |
|--|----------------------------------|----------------------------------|
| All businesses must prepare accounts on the accruals basis. | <input type="radio"/> | <input checked="" type="radio"/> |
| A general partnership must file accounts at Companies House. | <input type="radio"/> | <input checked="" type="radio"/> |
| A sole trader can choose whether to prepare a statement of financial position. | <input checked="" type="radio"/> | <input type="radio"/> |

(LO 6.1.1, 6.1.2)

End of task

Task 2 (12 marks)

This task is about advanced double-entry bookkeeping.


This task contains parts (a) to (c).

You are processing bookkeeping transactions for Henry, a sole trader.

The business is registered for VAT.

A credit note of £280.20 plus VAT has been issued to a customer who returned damaged goods. This is to be recorded in the correct daybook.

(a) Complete the following statement. (1 mark)

The credit note will be included in the 

(LO 2.3.1)



You have been provided with an extract from the sales daybook of Henry's business for the week commencing 1 June 20X8.

| Date | Customer | Total (£) | Net (£) | VAT (£) |
|--------------|----------|-----------------|---------------|---------------|
| 1/6/20X8 | BK002 | 308.40 | 257.00 | 51.40 |
| 2/6/20X8 | JJ001 | 218.40 | 182.00 | 36.40 |
| 4/6/20X8 | TR003 | 495.12 | 412.60 | 82.52 |
| 5/6/20X8 | VN002 | 134.40 | 112.00 | 22.40 |
| Total | | 1,156.32 | 963.60 | 192.72 |

The entries now need to be posted to the relevant ledger accounts.



(b) Identify whether the following statements are true or false. (3 marks)

| Statement | True | False |
|---|----------------------------------|----------------------------------|
| The total figure of £1,156.32 will be posted to the receivables ledger control account and the receivables ledger. | <input type="radio"/> | <input checked="" type="radio"/> |
| The total figure of £963.60 will be posted to the receivables ledger control account and the individual amounts of £257.00, £182.00, £412.60 and £112.00 will be posted to the customer accounts in the receivables ledger. | <input type="radio"/> | <input checked="" type="radio"/> |
| The total VAT amount of £192.72 will be posted to the credit side of the VAT control account. | <input checked="" type="radio"/> | <input type="radio"/> |

(LO 2.3.2, 2.3.3, 2.3.4)

A customer was issued with an invoice for £420 plus VAT. This was recorded in the sales day book and processed in all relevant ledger accounts.

The customer made a BACS payment of £478.80 as they had taken a prompt payment discount of 5%.

You have checked the invoice and confirmed that the payment was made within the prompt payment period and that it was for the correct amount.

(c) Identify how the receipt of the payment will be recorded in each ledger account by entering the amount that will be included and whether it will be a debit or a credit in each account. State your answers to two decimal places. (8 marks)

| Ledger account name | Amount (£) | Debit/Credit |
|----------------------------|------------|--------------|
| Bank | 478.80 | Debit ▾ |
| Receivables ledger control | 504.00 | Credit ▾ |
| Discounts allowed | 21.00 | Debit ▾ |
| VAT control | 4.20 | Debit ▾ |

(LO 2.3.6)

End of task

Task 3 (10 marks)

This task is about preparing reconciliations.

You are preparing the bank reconciliation for June for Marcus, a sole trader. The cash book and bank statement for the month of June are shown below.

Cash book

| Date | Details | £ | Date | Details | £ |
|---------|-----------------|-----------------|---------|--------------------|-----------------|
| 1 June | Balance b/d | 5,497.65 | 18 June | PLCA – KM Trading | 4,113.66 |
| 2 June | RLCA – G Peters | 568.22 | 20 June | PLCA – TFN Trading | 398.65 |
| 9 June | Sales – T Hall | 125.00 | | | |
| 17 June | RLCA – F Newsom | 1,123.45 | | | |
| 29 June | RLCA – V James | 586.54 | 30 June | Balance c/d | 3,388.55 |
| | | 7,900.86 | | | 7,900.86 |



Bank statement

| Date | Description | Payment in £ | Payment out £ | Balance £ |
|---------|---------------------------------|-----------------|------------------|--------------|
| 1 June | Opening balance | | | 6,754.88 |
| 2 June | Cheque: 01035 | | 1,257.23 | 5,497.65 |
| 6 June | Cheque: G Peters | 568.22 | | 6,065.87 |
| 9 June | Bank transfer: T Hall | 125.00 | | 6,190.87 |
| 15 June | Bank interest | 2.25 | | 6,193.12 |
| 15 June | Direct debit – Electric company | | 286.90 | 5,906.22 |
| 19 June | Cheque: F Newsom | 1,123.45 | | 7,029.67 |
| 28 June | Cheque: 01037 | | 398.65 | 6,631.02 |
| 30 June | Bank transfer: H Smith | 1,023.60 | | 7,654.62 |

(a) (i) Complete the adjustments to the cash book. The balance at 30 June before adjustments has already been included. State all answers to two decimal places. (4 marks)

| | £ |
|---|----------|
| Cash book balance at 30 June before adjustments | 3,388.55 |
| Add debit adjustments to the cash book: | |
| Bank transfer: H Smith | 1,023.60 |
| Bank interest | 2.25 |
| Less credit adjustments to the cash book: | |
| Direct debit – Electric company | 286.90 |
| | |
| Cash book balance after adjustments | 4,127.50 |

(LO 2.4.5)

(ii) Complete the bank reconciliation. State all answers to two decimal places. (6 marks)

| | £ |
|--|----------|
| Bank balance at 30 June before adjustments | 7,654.62 |
| Add adjustments to increase bank balance: | |
| Outstanding/uncleared lodgements | 586.54 |
| Less adjustments to decrease bank balance: | |
| Uncleared/unpresented cheques | 4,113.66 |
| Bank balance after adjustments | 4,127.50 |

(LO 2.4.5)

End of task

Task 4 (14 marks)

This task is about non-current assets.

This task contains parts (a) to (b).

VAT can be ignored in this task.

Nancy Jones is a sole trader.

You are working on the accounts for the year ended 31 March 20X8.

The business has the following policies in place:

- relevant expenditure over £150 is to be capitalised
- a full year's depreciation is to be charged in the year of acquisition. No depreciation is to be charged in the year of disposal
- machinery is to be depreciated at 20% using the straight-line method. There is an expected 5% residual value
- vehicles are to be depreciated at 25% using the diminishing balance method. There is expected to be no residual value.

On 1 March 20X8, the business received an invoice for a TULE machine, an extract of which is shown below.

| Invoice extract | |
|----------------------|---------------|
| Item | £ |
| TULE Machine | 12,000 |
| Delivery | 100 |
| Maintenance Contract | 200 |
| Total | 12,300 |

James, who works in Nancy's business, is paid £25 per hour. James took 15 hours to install and set up the machine.

(a) (i) Calculate the amount that should be recorded as the capital cost of the TULE machine. (1 mark)

£

(LO 3.1.5)

(ii) Calculate the depreciable amount of the TULE machine. State your answer to TWO decimal places. (1 mark)

£

(LO 3.3.1)

(iii) Calculate the depreciation charge for the TULE machine for the year ended 31 March 20X8. State your answer to TWO decimal places. (1 mark)

£

(LO 3.3.4)

(iv) Identify the entries to be made in the general ledger to process the depreciation charge on the TULE machine. (2 marks)

| | |
|--------|-------------------------------------|
| Debit | Depreciation expense |
| Credit | Machinery: accumulated depreciation |

(LO 3.4.1)

On 28 February 20X8, the business sold a van, TA54 VLC, and received £5,000 as a bank transfer.

This van had been purchased on 1 April 20X6 for £27,000.

(v) Enter this disposal into the non-current asset register shown below. (4 marks)

(vi) Enter the depreciation entries into the non-current asset register shown below. Figures should be shown to two decimal places. Dates should be entered as DD/MM/YYYY. (2 marks)

| Description | Acquisition date | Acquisition cost (£) | Depreciation charges (£) | Carrying amount (£) | Disposal proceeds (£) | Disposal date |
|-----------------------|------------------|----------------------|--------------------------|---------------------|-----------------------|---------------|
| Vehicles | | | | | | |
| TA54 VLC | 11/08/20X6 | 27,000.00 | | | | |
| Year ended 31/03/20X6 | | | 6,750.00 | 20,250.00 | | |
| Year ended 31/03/20X7 | | | 5,062.50 | 15,187.50 | | |
| Year ended 31/03/20X8 | | | 0.00 | 0.00 | 5,000 | 28/02/20X8 |
| TR08 HNE | 17/07/20X6 | 19,600.00 | | | | |
| Year ended 31/03/20X7 | | | 4,900.00 | 14,700.00 | | |
| Year ended 31/03/20X8 | | | 3,675 | 11,025 | | |

(LO 3.2.6, 3.3.5, 3.4.1)

On 1 April 20X7, the business sold a FRUM machine.

The following information is available:

| | |
|--------------------------------|---------|
| Cost of FRUM machine | £24,000 |
| Carrying value at 1 April 20X7 | £10,320 |
| Disposal proceeds | £8,300 |

(b) (i) Calculate the gain or loss on disposal of the FRUM machine, selecting whether this represents a gain or a loss on disposal. State your answer as a positive number. (2 marks)

£

(LO 3.2.7)

(ii) Identify whether the following statement is true or false. (1 mark)

| Statement | True | False |
|---|----------------------------------|-----------------------|
| A loss on the disposal of a non-current asset will be shown on the credit side of the disposal account and the debit side of the profit and loss account. | <input checked="" type="radio"/> | <input type="radio"/> |

(LO 3.2.7)

End of task

Task 5 (18 marks)

This task is about recording period end adjustments and preparing the trial balance.

This task contains parts (a) to (e).

You are working on the accounts for Angela, a sole trader, for the year ended 30 June 20X8.

You are considering the administration expenses account.

The cash book figure is £35,750.

This includes:

- £800 for electricity which related to May and June 20X7. An adjustment relating to this was made in the year ended 30 June 20X7, but the corresponding entry has yet to be made in the current year
- an invoice for insurance had been included for £4,500 regarding the 12 months from 1 February 20X8.

(a) Complete the administration expenses account for the year ended 30 June 20X8, ensuring it is balanced off appropriately. Enter your answers to two decimal places. (7 marks)

| Administration expenses | | | |
|-------------------------|------------------|-----------------------------|------------------|
| | £ | | £ |
| Cash book | 35,750.00 | Accrued expenses reversal | 800.00 |
| | | Prepaid expenses | 2,625.00 |
| | | Statement of profit or loss | 32,325.00 |
| Total | 35,750.00 | Total | 35,750.00 |

(LO 2.4.1, 2.4.4, 4.1.5, 4.1.6, 4.1.7)

You are now working on the final accounts for Ajay, a sole trader selling sweets and sweet jars.

The business has a policy of selling any sweets that are imperfect at 50% of their normal selling price.

You are calculating the value of inventory for one of the sweet types, Product A.

Each packet of Product A retails for £2.50. It costs £1.75 per packet to manufacture. The business currently has 87 packets of Product A in inventory. A box containing 15 packets of Product A was dropped and all packets were damaged.

(b) (i) Calculate the total inventory value which should be included in the accounts for Product A. State your answer to two decimal places. (3 marks)

| | £ |
|---|---------------|
| Inventory value of 72 undamaged packets | 126.00 |
| Inventory value of 15 damaged packets | 18.75 |
| Total inventory value | 144.75 |

(LO 4.3.2, 4.3.5)

The jars retail for £20 each and cost £10 each. Three jars are damaged and will cost £40 to repair. They will then be offered for sale at a 10% discount.

(ii) Calculate the total inventory value which should be included in the accounts with regard to these three jars. State your answer to two decimal places. (1 mark)

£

(LO 4.3.5)

You have identified the following adjustments to be made in the accounts for Carl, a sole trader, for the year ended 30 June 20X8.

- A receivable amount of £1,000 is to be written off in the accounts.
- Part of the business office was rented out for the six-months from 1 April 20X8 to 30 September 20X8. The tenant paid the full six-months rent of £6,000 on 1 April 20X8 and this has been included as an income in the accounts.

(c) Process the adjustments in the extract from the trial balance show below. (4 marks)

| Extract from trial balance | | | | |
|------------------------------------|-----------------|-------------|-------------|-------------|
| | Ledger balances | | Adjustments | |
| | Debit £ | Credit £ | Debit £ | Credit £ |
| Accrued income | | | | |
| Allowance for doubtful receivables | | | | |
| Irrecoverable debts expense | | | 1,000 | |
| Prepaid income | | | | 3,000 |
| Receivable ledger control account | 68,448 | | | 1,000 |
| Rental income | | 6,000 | 3,000 | |

(LO 4.2.1, 5.2.3)

You have been provided with the following extract from an extended trial balance (ETB).

(d) Complete the entries for closing inventory in the statement of profit or loss and statement of financial position columns of the ETB. (2 marks)

| Account name | Ledger balances | | Adjustments | | Statement of profit or loss | | Statement of financial position | |
|-------------------|-----------------|------------|-------------|------------|-----------------------------|------------|---------------------------------|------------|
| | Debit (£) | Credit (£) | Debit (£) | Credit (£) | Debit (£) | Credit (£) | Debit (£) | Credit (£) |
| Closing inventory | | | 22,450 | 22,450 | | 22,450 | 22,450 | |

(LO 5.2.4)

(e) Identify whether the following statement is true or false. (1 mark)

| Statement | True | False |
|---|-----------------------|----------------------------------|
| A profit for the year will be shown as a debit in the statement of financial position columns of the ETB. | <input type="radio"/> | <input checked="" type="radio"/> |

(LO 5.2.5)

End of task

Task 6 (19 marks)

This task is about preparing financial statements for sole traders.

Lucy runs a gift shop. She is a sole trader and the year end is 31 March 20X8.

You are given the trial balance as at 31 March 20X8.

| | Debit | Credit |
|--|----------------|----------------|
| | £ | £ |
| Bank | 35,042 | |
| Closing inventory | 11,424 | 11,424 |
| Depreciation charges | 614 | |
| Drawings | 28,776 | |
| Fixtures and fittings at cost | 6,487 | |
| Fixtures and fittings accumulated depreciation | | 4,255 |
| Other expenses | 116,363 | |
| Opening capital | | 24,580 |
| Opening inventory | 11,142 | |
| Payables ledger control account | | 30,814 |
| Purchases | 222,843 | |
| Sales revenue | | 372,592 |
| Receivables ledger control account | 14,442 | |
| VAT | | 3,468 |
| | 447,133 | 447,133 |

(i) Complete the statement of profit or loss (SPL) for the year ended 31 March 20X8. (9 marks)

(ii) Complete the statement of financial position (SFP) at 31 March 20X8. (10 marks)

- If a loss for the year is calculated in the SPL, this should be shown as a negative figure using a minus sign.

- All other entries should be shown as positive figures.

| Statement of profit or loss for the year ended 31 March 20X8 | | |
|--|---------|---------|
| | £ | £ |
| Sales revenue | | 372,592 |
| Less: | | |
| Opening inventory | 11,142 | |
| Purchases | 222,843 | |
| Closing inventory | 11,424 | |
| Cost of sales | | 222,561 |
| Gross profit | | 150,031 |
| Less: | | |
| Depreciation charges | 614 | |
| Other expenses | 116,363 | |
| Total expenses | | 116,977 |
| Profit/(loss) for the year | | 33,054 |

(LO 6.2.4, 6.2.5, 6.2.9)

| Statement of financial position at 31 March 20X8 | | | |
|--|-----------|----------------------------------|-------------------------|
| | Cost £ | Accumulated depreciation £ | Carrying amount £ |
| Non-current assets | 6,487 | 4,255 | 2,232 |
| Current assets | | | |
| Bank | | 35,042 | |
| Closing inventory | | 11,424 | |
| Trade receivables | | 14,442 | |
| Total current assets | | 60,908 | |
| Current liabilities | | | |
| Trade payables | 30,814 | | |
| VAT | 3,468 | | |
| Total current liabilities | | 34,282 | |
| Net-current assets | | | 26,626 |
| Net assets | | | 28,858 |
| Capital | | | |
| Opening capital | | 24,580 | |
| Profit/(loss) for the year | | 33,054 | |
| Drawings | | 28,776 | |
| Closing capital | | | 28,858 |

(LO 6.2.4, 6.2.6, 6.2.8, 6.2.10)

End of task

Task 7 (9 marks)

This task is about the differences between partnership and sole trader accounts.
This task contains parts (a) to (b)

Imran and Nancy run a business as a partnership.

Profits of the partnership are to be allocated as follows:

| | Imran | Nancy |
|----------------------|---------|-----------|
| Salary | £25,000 | No salary |
| Interest on capital | £10,525 | £10,525 |
| Interest on drawings | £141 | £41 |
| Profit share | 60% | 40% |

The profits for the partnership for the year ended 30 June 20X8 were £77,203.

(a) Complete the following appropriation account for the year ended 31 March 20X8. All figures should be shown to the nearest whole pound (£). All figures should be shown as positive. If any figure is zero, enter '0'. (8 marks)

| | Total £ | Imran £ | Nancy £ |
|---------------------------------------|------------|------------|------------|
| Profit/(loss) for the year | 77,203 | | |
| Add: | | | |
| Interest charged on drawings | 182 | 141 | 41 |
| | 0 | 0 | 0 |
| Less appropriation of profits: | | | |
| Partners salaries | 25,000 | 25,000 | 0 |
| Interest on capital | 21,050 | 10,525 | 10,525 |
| | | | |
| Profit available for distribution | 31,335 | | |
| | | | |
| Profit share | | | |
| Imran | 18,801 | | |
| Nancy | 12,534 | | |
| Total profit distributed | 31,335 | | |

(LO 6.3.1, 6.3.3, 6.3.4)

(b) Identify whether the following statement is true or false. (1 mark)

| Statement | True | False |
|---|-----------------------|----------------------------------|
| A credit balance on a partner's current account means that the partner has drawn out more than his or her share of the profits. | <input type="radio"/> | <input checked="" type="radio"/> |

(LO 6.3.2)

End of task

Task 8 (10 marks)

This task is about the difference between the cash and accruals basis when preparing accounts and the differences between company and sole trader accounts.

This task contains parts (a) to (c).

All of the shares in Company A are owned by David Johnson, who is also the only Director of the company.

During the year ended 30 June 20X8, the following transactions were recorded in the accounts:

- a salary of £1,000 per month was processed. The credit side of this entry was included in the Directors Loan Account (DLA)
- David took £1,500 per month from the company bank account for his personal expenditure. This debit side of this entry was included in the DLA
- on 30 June 20X8, Company A declared a dividend of £24,000. The credit side of this entry was included in the DLA.

(a) (i) Calculate the total amount to be included in the statement of profit or loss as an expense during the year ended 30 June 20X8. (1 mark)

£

(LO 6.4.2)

(ii) Calculate the balance on the DLA of Company A at 30 June 20X8, selecting whether this is money owed to David from the company or owed from David to the company. Enter your answer as a positive figure. (2 marks)

£ owed to David from the company.

(LO 6.4.7)

(b) Identify whether the following statements are true or false. (3 marks)

| Statement | True | False |
|--|----------------------------------|----------------------------------|
| A company can only pay dividends if it has retained earnings available. | <input checked="" type="radio"/> | <input type="radio"/> |
| The retained earnings of a company will show the capital account of each director. | <input type="radio"/> | <input checked="" type="radio"/> |
| A company must have different people acting as shareholders and directors. | <input type="radio"/> | <input checked="" type="radio"/> |

(LO 6.4.1, 6.4.4, 6.4.5)

Clive is a sole trader and is considering whether to use the cash basis or the accruals basis when preparing his business accounts.

(c) Identify whether the following statements are true or false. (4 marks)

| Statement | True | False |
|--|----------------------------------|----------------------------------|
| The accruals basis will mean that Clive's profits for the year are a more accurate reflection of the work completed during the year. | <input checked="" type="radio"/> | <input type="radio"/> |
| The cash basis will always result in a lower profit for the year than the accruals basis. | <input type="radio"/> | <input checked="" type="radio"/> |
| Adjustments for irrecoverable debts will not be required on the cash basis. | <input checked="" type="radio"/> | <input type="radio"/> |
| Using the cash basis means that all of Clive's customers will pay in cash on the date the sale takes place. | <input type="radio"/> | <input checked="" type="radio"/> |

(LO 6.2.7)

End of task

Consultation - draft

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