

L4 Financial Accounting

Practice assessment 1 mark scheme

A 20x20 grid of small green equals signs. The grid is composed of 20 rows and 20 columns, totaling 400 cells. Each cell contains a small green equals sign (=). The signs are evenly spaced and aligned in a precise grid pattern.

Practice assessment 1 mark scheme

Version control

| Version no. | Publish date | Key changes |
|-------------|---------------|-----------------------------------|
| 1.0 | November 2024 | Consultation draft |
| 1.1 | October 2025 | IFRS 18 updates made |
| 1.2 | November 2025 | Minor updates to question wording |

Task 1 (23 marks)

(a) Draft a statement of profit or loss and other comprehensive income for the year ended 31 December 20X1. (18 marks)

- Additional notes and disclosures are not required.
- You do not have to use the workings tables to achieve full marks on the task; however, any data that you enter into the workings tables will be taken into consideration if you make errors in the main pro forma.
- Show any items that need to be deducted as negative figures, using minus signs.

| Statement of profit or loss and other comprehensive income for the year ended 31 December 20X1 | |
|---|-------|
| | £000 |
| Continuing operations | |
| Revenue | 8719 |
| Cost of sales | -5345 |
| Gross profit | 3,374 |
| Selling expenses | -804 |
| General and administrative expenses | -1430 |
| Operating profit | 1,140 |
| Profit before financing and income taxes | 1,140 |
| Interest expense | -64 |
| Profit before income taxes | 1,076 |
| Income tax expense | -193 |
| PROFIT | 883 |
| Other comprehensive income: items that will not be classified subsequently to profit or loss | 700 |
| TOTAL COMPREHENSIVE INCOME | 1,583 |

Workings

| Revenue | £000 |
|---------------|-------|
| Sales | 8754 |
| Sales returns | -35 |
| | 8,719 |

| Selling expenses | £000 |
|------------------------------|------|
| Selling expenses | 738 |
| Adjustment – marketing costs | 16 |
| Misclassified salary | 50 |
| | 804 |

| Income tax expense | £000 |
|---------------------|------|
| Tax – current year | 210 |
| Tax – previous year | -17 |
| | 193 |

| Cost of sales | £000 |
|---------------------|-------|
| Opening inventories | 940 |
| Purchases | 5289 |
| Purchases returns | -43 |
| Closing inventories | -841 |
| | 5,345 |

| General and administrative expenses | £000 |
|-------------------------------------|-------|
| General and administrative expenses | 1456 |
| Misclassified salary | -50 |
| Irrecoverable debt | 24 |
| | 1,430 |

(LO 2.1.8, 4.2.10, 4.7.7, 5.2.4 and 5.2.4)

(b) Draft a statement of changes in equity for the year ended 31 December 20X1. (5 marks)

- Additional notes and disclosures are not required.

| | Share capital £000 | Revaluation surplus £000 | Retained earnings £000 | Total equity £000 |
|-----------------------------|-----------------------|-----------------------------|---------------------------|----------------------|
| Balance at 1 January 20X1 | 3240 | - | 639 | 3,879 |
| Changes in equity | | | | |
| Total comprehensive income | | 700 | 883 | 1,583 |
| Dividends | | -250 | -250 | -500 |
| Balance at 31 December 20X1 | 3,240 | 450 | 1,272 | 4,962 |

(LO 2.1.8, 4.2.10, 4.7.7 and 5.4.2)

End of task

Task 2 (17 marks)

Draft a statement of financial position as at 31 December 20X1. (17 marks)

- Additional notes and disclosures are not required.
- You do not have to use the workings tables to achieve full marks on the task; however, any data that you enter into the workings tables will be taken into consideration if you make errors in the main pro forma.
- Show any items that need to be deducted as negative figures, using minus signs.

| Statement of financial position as at 31 December 20X1 | £000 |
|--|-------|
| ASSETS | |
| Non-current assets | |
| Property, plant and equipment | 5,346 |
| Current assets | |
| Inventories | 841 |
| Trade and other receivables | 736 |
| Cash and cash equivalents | 56 |
| | 1,633 |
| Total assets | 6,979 |
| EQUITY AND LIABILITIES | |
| Equity | |
| Share capital | 3,240 |
| Revaluation surplus | 700 |
| Retained earnings | 1,272 |
| Total equity | 5,212 |
| Non-current liabilities | |
| Bank loan | 900 |
| | 900 |
| Current liabilities | |
| Trade and other payables | 657 |
| Tax liability | 210 |
| | 867 |
| Total liabilities | 1,767 |
| Total equity and liabilities | 6,979 |

Workings

| Property, plant and equipment | £000 |
|--------------------------------------|--------|
| Property, plant and equipment - cost | 8,362 |
| Accumulated depreciation | -3,716 |
| Revaluation | 700 |
| | 5,346 |

| Retained earnings | £000 |
|-------------------------------------|-------|
| Retained earnings at 1 January 20X1 | 639 |
| Profit for the year | 883 |
| Dividends | -250 |
| | 1,272 |

| Trade and other receivables | £000 |
|-----------------------------|------|
| Trade receivables | 679 |
| Prepayments | 81 |
| Irrecoverable debt | -24 |
| | 736 |

| Trade and other payables | £000 |
|--------------------------|------|
| Trade payables | 641 |
| Accruals | 16 |
| | 657 |

(LO 2.1.8, 3.1.13, 4.2.10, 4.7.7 and 5.3.3)

End of task

Task 3 (15 marks)

(a) (i) Draft a reconciliation of operating profit to net cash from operating activities for the year ended 31 December 20X1. (13 marks)

- Show any negative figures using minus signs.

| Reconciliation of operating profit to net cash from operating activities | |
|--|---------------|
| | £000 |
| Operating profit | 10140 |
| Adjustments for: | |
| Depreciation | 6572 |
| Loss on disposal of PPE | 189 |
| Impairment loss | 15 |
| Adjustment – inventories | -869 |
| Adjustment – trade receivables | 646 |
| Adjustment – trade payables | -1442 |
| Cash from operating activities before income taxes | 15,251 |
| Income taxes paid | -1619 |
| Net cash from operating activities | 13,632 |

(LO 5.5.6)

(ii) Which TWO items are included as cash and cash equivalents in a statement of cash flows? (2 marks)

- ☒ Demand deposit.
- ☐ Prepaid rent.
- ☒ Bank overdraft.
- ☐ Trade receivables due within 30 days.

(LO 5.5.6)

End of task

Task 4 (12 marks)

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

| Statement | True | False |
|--|----------------------------------|----------------------------------|
| A plc must submit accounts to Companies House within nine months of the accounting year end. | <input type="radio"/> | <input checked="" type="radio"/> |
| A plc must have two or more shareholders. | <input checked="" type="radio"/> | <input type="radio"/> |
| A plc must have at least one non-executive director. | <input type="radio"/> | <input checked="" type="radio"/> |

(LO 1.1.2)

(b) (i) Which feature results in the trade payable being classified as a liability based on the IFRS Conceptual Framework (2018)? (1 mark)

- ☐ An invoice has been received.
- ☐ A payment date has been identified on the invoice.
- ☒ A contractual agreement was made at the time of purchase to pay for the goods in the future.
- ☐ A goods received note shows that the goods have been received, and this has been matched to the invoice received.

(LO 1.2.5)

(ii) Identify whether the following qualitative characteristics of useful information are 'fundamental' or 'enhancing' based on the IFRS Conceptual Framework (2018). (2 marks)

| Characteristic | Fundamental | Enhancing |
|----------------|----------------------------------|----------------------------------|
| Verifiability | <input type="radio"/> | <input checked="" type="radio"/> |
| Relevance | <input checked="" type="radio"/> | <input type="radio"/> |

(LO 1.2.3)

(c) Identify whether the statements are true or false. (2 marks)

| Statement | True | False |
|---|----------------------------------|----------------------------------|
| The only situation in which the accounting equation will not balance is if a company has a retained loss. | <input type="radio"/> | <input checked="" type="radio"/> |
| A suspense account will never be included in a company's statement of financial position. | <input checked="" type="radio"/> | <input type="radio"/> |

(LO 2.1.1 and 2.1.6)

(d) Identify the accounting principle being applied in each statement. (3 marks)

| Statement | Accounting principle |
|--|--|
| IAS 37 requires that contingent liabilities are disclosed unless the possibility of outflow of economic resource is remote, but contingent assets are only disclosed if there is a probable inflow of economic resource. | Prudence <input type="button" value="v"/> |
| IAS 8 requires a change in accounting policy to be applied retrospectively. | Consistency <input type="button" value="v"/> |
| IAS 2 requires opening inventory to be included in cost of sales and closing inventory to be removed from cost of sales in the statement of profit or loss and other comprehensive income. | Accruals <input type="button" value="v"/> |

(LO 2.2.4)

(e) Which statement about IFRS 18 is correct? (1 mark)

- ☒ IFRS 18 requires companies to classify items based on shared characteristics.
- ☐ IFRS 18 permits income and expenses to be offset against one another.
- ☐ IFRS 18 requires companies to present or disclose all financial information, regardless of the amount.

(LO 5.1.1)

End of task

Task 5 (11 marks)

(a) Identify whether the following costs should be included in the cost of an item of property, plant and equipment. (3 marks)

| Costs | Included | Not included |
|---|----------------------------------|----------------------------------|
| The cost of a maintenance contract. | <input type="radio"/> | <input checked="" type="radio"/> |
| Professional fees incurred in relation to the item. | <input checked="" type="radio"/> | <input type="radio"/> |
| Installation costs. | <input checked="" type="radio"/> | <input type="radio"/> |

(LO 3.1.4)

(b) (i) Identify whether the statements are true or false. (2 marks)

| Statement | True | False |
|--|----------------------------------|----------------------------------|
| A company is testing a variety of new materials. The most successful new material will be used in the future design of new products. This expenditure should be expensed in the statement of profit or loss in the period that it is incurred. | <input checked="" type="radio"/> | <input type="radio"/> |
| Internally generated goodwill can only be recognised as an asset in the statement of financial position if an independent third party confirms its value. | <input type="radio"/> | <input checked="" type="radio"/> |

(LO 3.2.6 and 3.2.7)

(ii) Calculate the amount of the amortisation charge in relation to this development expenditure for the year ended 31 December 20X1. (2 marks)

- ☒ £45,000
- ☐ £75,000
- ☐ £300,000

(LO 3.2.12)

(c) (i) Identify whether the assets are impaired. (3 marks)

| Assets | Impaired | Not impaired |
|---------|----------------------------------|----------------------------------|
| Asset A | <input type="radio"/> | <input checked="" type="radio"/> |
| Asset B | <input checked="" type="radio"/> | <input type="radio"/> |
| Asset C | <input type="radio"/> | <input checked="" type="radio"/> |

(LO 3.3.1)

(ii) Which statement describes how the impairment loss on Asset D will be recognised? (1 mark)

- ☐ The full amount of the impairment loss is recognised in profit or loss.
- ☐ The full amount of the impairment is recognised in other comprehensive income.
- ☒ £50,000 of the impairment loss will be recognised in profit or loss and £30,000 in other comprehensive income.
- ☐ £30,000 of the impairment loss will be recognised in profit or loss and £50,000 in other comprehensive income.

(LO 3.3.4)

End of task

Task 6 (10 marks)

(a) (i) Which TWO are permitted reasons for a company to change an accounting policy? (2 marks)

- ☒ The change is required by an International Financial Reporting Standard.
- ☐ The change will allow a more favourable position to be presented in the financial statements.
- ☒ The change will improve the relevance and reliability of the financial statements.
- ☐ There has been a written resolution for the change agreed by all shareholders.

(LO 4.1.4)

(ii) Complete the statement. (1 mark)

This change will be a change in an ▼

(LO 4.1.1)

(b) (i) Is the statement true or false? (1 mark)

| Statement | True | False |
|--|-----------------------|----------------------------------|
| As all items are identical, the company is required to use weighted average cost to value its inventory. | <input type="radio"/> | <input checked="" type="radio"/> |

(LO 4.2.2)

(ii) Calculate the amount at which the inventory of coats should be recognised in the financial statements. (2 marks)

£

(LO 4.2.9)

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

| Statement | True | False |
|---|----------------------------------|----------------------------------|
| As the outcome has not yet been determined, this is considered an event after the reporting period. | <input type="radio"/> | <input checked="" type="radio"/> |
| As the company is being sued for £50,000, prudence requires that a liability should be created for the full £50,000. | <input type="radio"/> | <input checked="" type="radio"/> |
| The company should not recognise the liability, but should disclose the nature and estimated financial effect of the potential future liability. | <input checked="" type="radio"/> | <input type="radio"/> |
| The company cannot prepare accounts on the going concern basis if they intend to cease trading, even if that intention did not exist at the year end date to which the accounts are prepared. | <input checked="" type="radio"/> | <input type="radio"/> |

(LO 4.3.1, 4.3.5, 4.4.2 and 4.4.10)

End of task

Task 7 (8 marks)

(a) Is the statement true or false? (1 mark)

| Statement | True | False |
|---|-----------------------|----------------------------------|
| Lease payments can be recognised in profit or loss on a straight line basis providing there is less than 12 months' lease term remaining at the date the financial statements are prepared. | <input type="radio"/> | <input checked="" type="radio"/> |

(LO 4.5.5)

(b) (i) Which amount will be initially recognised for the right of use asset? (1 mark)

- ☐ £7,725
- ☐ £8,325
- ☒ £8,925

(LO 4.5.7)

(ii) Calculate the amounts to be included in the financial statements of the company as at 31 December 20X1. (3 marks)

- Enter your answers to the nearest whole pound (£).

| | £ |
|---|-------|
| Amount included in the statement of financial position as 31 December 20X1 | |
| Non-current liability | 2,884 |
| Current liability | 2,774 |
| Amount included in the statement of profit or loss for the year ended 31 December 20X1 | |
| Finance charge | 333 |

(LO 4.5.6)

(c) Complete the statement. (1 mark)

The company should include within the transaction price to reflect the performance bonus.

(LO 4.6.4)

(d) Which amount of revenue should be recognised in the financial statements for the year ended 31 December 20X1? (2 marks)

- ☐ £0 (zero)
- ☒ £2,000
- ☐ £2,500
- ☐ £3,000
- ☐ £5,000

(LO 4.6.10)

End of task

Task 8 (12 marks)

(a) Calculate the following ratios to one decimal place. (8 marks)

Return on capital employed %

Current ratio : 1

Inventory holding period days

Interest cover times

(LO 6.1.1)

(b) (i) Identify whether the company's ratios are better or worse than the industry average. (2 marks)

| Ratio | Better | Worse |
|----------------------------|----------------------------------|-----------------------|
| Interest cover | <input checked="" type="radio"/> | <input type="radio"/> |
| Return on capital employed | <input checked="" type="radio"/> | <input type="radio"/> |

(LO 6.2.2)

(ii) Which TWO statements could explain the difference between the company's return on capital employed and the industry average? (2 marks)

- ☒ The company takes advantage of prompt payment discounts from all suppliers. Most companies in the industry pay supplier invoices as late as possible and do not take advantage of prompt payment discounts.
- ☐ The company incurred significant marketing expenditure to launch a marketing campaign in the final week of the financial year. This is expected to increase future sales and other companies in the industry are expected to react with similar campaigns in the future.
- ☐ The company has significantly higher investment from shareholders than from lenders than the industry average.
- ☐ There is no significant difference between the amount of dividends paid to the interest that would have been payable had the company borrowed from lenders.
- ☒ The company implemented efficiency measures to improve productivity and reduce operating expenses. This would make the company more attractive to potential investors.

(LO 6.2.3)

End of task

Task 9 (12 marks)

(a) Complete the statement. (1 mark)

The change in the inventory turnover ratio from 20X0 to 20X1 could indicate that it is taking time to sell inventory in 20X1.

(LO 6.2.2)

(b) Which TWO statements could explain the change in the inventory turnover ratio? (2 marks)

- ☐ An increase in the rental cost of the inventory warehouse during 20X1.
- ☐ An increase in sales volume in 20X1.
- ☒ An increase in selling prices in 20X1.
- ☒ Creating an inventory reserve to meet a large customer order placed at the end of 20X1 but not delivered until 20X2.

(LO 6.2.7)

(c) Complete the statement. (2 marks)

Holding a high level of inventory at the year end may have an adverse effect on , which may be reflected in a decreased ratio.

(LO 6.2.8)

(d) Identify whether the statements are true or false. (2 marks)

| Statement | True | False |
|--|-----------------------|----------------------------------|
| A company should always seek to have the lowest possible level of inventory at the year end. | <input type="radio"/> | <input checked="" type="radio"/> |
| If a company's quick (acid test) ratio has reduced, it's current ratio must also have reduced. | <input type="radio"/> | <input checked="" type="radio"/> |

(LO 6.2.1 and 6.2.4)

(e) Which statement could explain why both gearing and the quick (acid test) ratio have decreased? (1 mark)

- ☐ A dividend is declared and immediately paid in cash.
- ☐ A new share issue has taken place to raise cash.
- ☒ Cash has been used to repay long-term debt.
- ☐ There has been an improvement in debt collection.

(LO 6.2.7)

(f) Which TWO actions that can be taken to increase the company's quick (acid test) ratio? (2 marks)

- ☒ Decrease sales prices to boost inventory sales.
- ☐ Pay all outstanding creditors to reduce current liabilities.
- ☒ Raise finance through a new share issue.
- ☐ Reduce credit terms offered to customers.

(LO 6.2.9)

(g) Which TWO statements could explain the change in the operating profit margin? (2 marks)

- ☐ The company agreed to an increased purchase price from suppliers in return for extended credit terms during 20X1.
- ☒ The company increased selling prices and extended credit terms to customers during 20X1.
- ☐ The company purchased a large quantity of inventory at a discounted price on the last day of 20X1.
- ☒ The company used an external firm to carry out a targeted marketing campaign during the final quarter of 20X0, but did not pay the invoice for this until 20X1.

(LO 6.2.7)

End of task

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