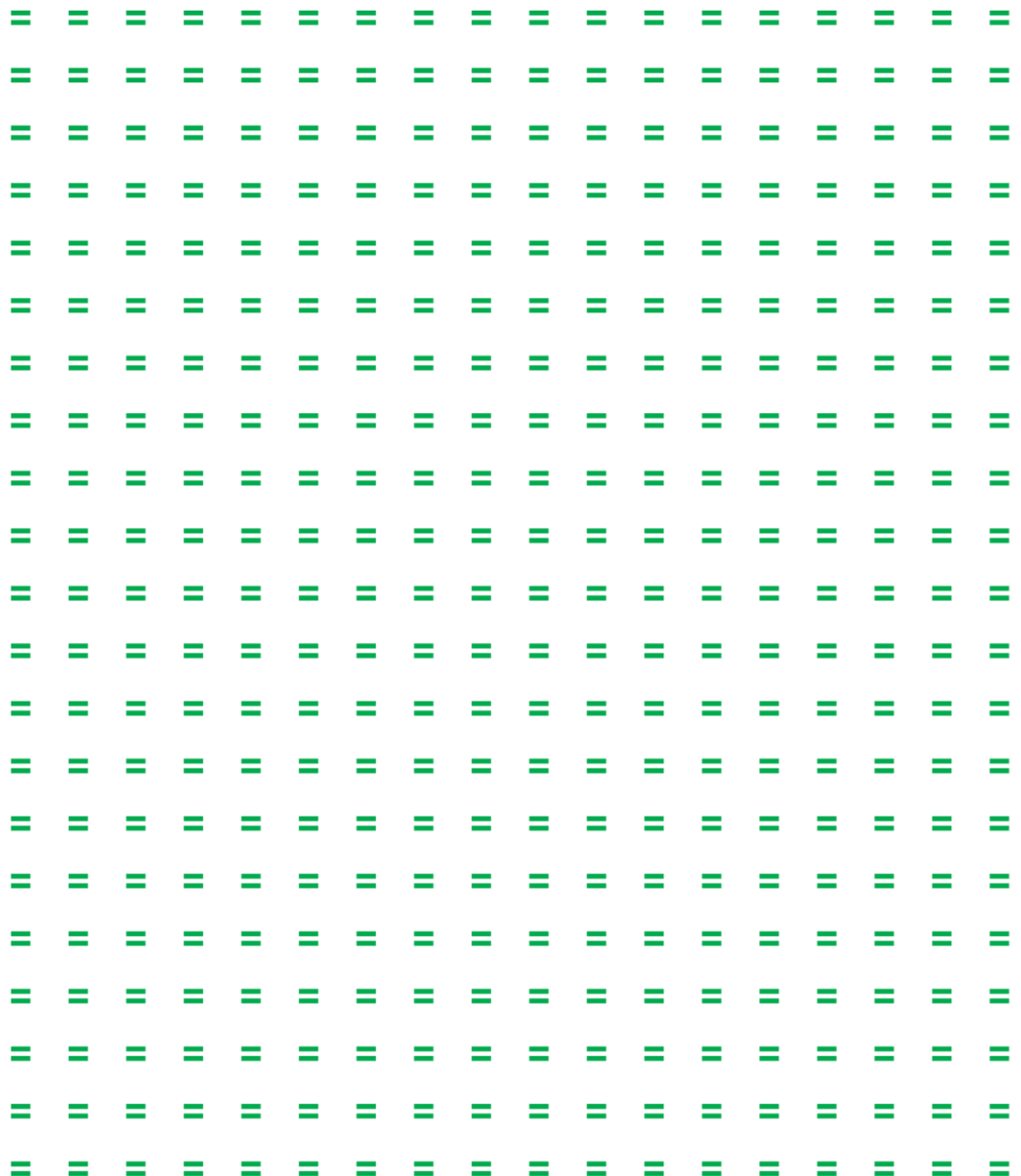


L4 Financial Accounting

Practice assessment 2 mark scheme



Practice assessment 1 mark scheme

Version control

Version no.	Publish date	Key changes
1.0	November 2025	Consultation draft

Task 1 (22 marks)

(a) Draft the statement of profit or loss 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 for the year ended 31 December 20X1	
	£000
Continuing operations	
Revenue	68,420
Cost of sales	-25,242
Gross profit	43,178
Distribution costs	-12,277
Administrative expenses	-20,632
Research expenses	-70
Other operating expenses	-1,500
Operating profit	8,699
Interest income	10
Profit before financing and income taxes	8,709
Interest expense	-180
Profit before income taxes	8,529
Income tax expense	-2,150
PROFIT	6,379

Workings

Cost of sales	£000
Opening inventories	1,973
Purchases	25,719
Closing inventories	-2,450
	25,242

Distribution costs	£000
Depreciation charge	5,280
Distribution costs	7,012
Adjustment - prepaid expense	-15
	12,277

Administrative expenses	£000
Administrative expenses	17,151
Research costs	-70
Adjustment - doubtful receivables	31
Depreciation charge	3,520
	20,632

(LO 2.1.7, 2.1.8, 4.2.10, 4.7.7 and 5.2.4)

(b) Draft the statement of changes in equity for the year ended 31 December 20X1. (4 marks)

- Additional notes and disclosures are not required.

Statement of changes in equity for the year ended 31 December 20X1.

	Share capital £000	Retained earnings £000	Total Equity £000
Balance at 1 January 20X1	22,000	9,800	31,800
Changes in equity			
Profit		6,379	6,379
Dividends		-2,190	-2,190
Balance at 31 December 20X1	22,000	13,989	35,989

(LO 2.1.8, 4.2.10, 4.7.7 and 5.4.2)

End of task

Task 2 (18 marks)

Draft a statement of financial position as at 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 financial position as at 31 December 20X1	
	£000
ASSETS	
Non-current assets	
Property, plant and equipment ▼	35,200
Current assets	
Inventories ▼	2,450
Trade and other receivables ▼	6,635
Cash and cash equivalents ▼	76
	9161
Total assets	44361
EQUITY AND LIABILITIES	
Equity	
Share capital ▼	22,000
Retained earnings ▼	13,989
Total equity	35989
Non-current liabilities	
Bank loan ▼	3,000
	3000
Current liabilities	
Trade and other payables ▼	3,222
Tax liability ▼	2,150
	5372
Total liabilities	8372
Total equity and liabilities	44361

Workings

Property, plant and equipment	£000
Property, plant and equipment - cost	54,000
Accumulated depreciation at 1 January 20X1	-10,000
Depreciation charge for the year	-8,800
	35,200

Retained earnings	£000
Retained earnings at 1 January 20X1	9,800
Profit for the year	6,379
Dividends paid	-2,190
	13,989

Trade and other receivables	£000
Trade receivables	6,980
Allowance for doubtful receivables	-360
Prepayments	15
	6,635

Trade and other payables	£000
Trade payables	3,178
Accruals	44
	3,222

(LO 3.1.12, 3.1.13 and 5.3.3)

End of task

Task 3 (15 marks)

Prepare the statement of cash flows for the year ended 31 December 20X1. (15 marks)

- Additional notes and disclosures are not required.
- You do not have to use the workings table to achieve full marks on the task. However, any data that you enter into the workings table 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 a minus sign.

Statement of cash flows for the year ended 31 December 20X1		£000
Net cash from operating activities		10,430
Investing activities		
Proceeds on disposal of property, plant and equipment	▼	811
Purchases of property, plant and equipment	▼	-16,494
Purchases of investments	▼	-3,000
Dividends received	▼	360
Net cash used in investing activities		-18,323
Financing activities		
Proceeds of share issue	▼	8,800
Proceeds from bank loans	▼	900
Interest paid	▼	-172
Dividends paid	▼	-2,000
Net cash from financing activities		7,528
Net increase/(decrease) in cash and cash equivalents		-365
Cash and cash equivalents at the beginning of the year		215
Cash and cash equivalents at the end of the year		-150

Workings

Purchases of Property, Plant and Equipment (PPE)	£000
PPE at the start of the year	24,812
Depreciation charge	▼ -3,721
Carrying amount of PPE sold	▼ -563
Revaluation	▼ 500
PPE at the end of the year	▼ -37,522
	-16,494

(LO 5.6.6)

End of task

Task 4 (12 marks)

(a) Identify whether each characteristic is associated with ordinary share capital or preference share capital. (3 marks)

Characteristic	Ordinary share capital	Preference share capital
Right to vote at company meetings.	<input checked="" type="radio"/>	<input type="radio"/>
Dividend is variable.	<input checked="" type="radio"/>	<input type="radio"/>
Priority claim on assets in the event of liquidation.	<input type="radio"/>	<input checked="" type="radio"/>

(LO 1.1.5)

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

Statement	True	False
An item must be legally owned to meet the definition an asset.	<input type="radio"/>	<input checked="" type="radio"/>
An asset should only be recognised if would provide users with relevant information about the asset and is a faithful representation of the asset.	<input checked="" type="radio"/>	<input type="radio"/>
To meet the definition of an asset, the future economic benefits derived from the item must be certain.	<input type="radio"/>	<input checked="" type="radio"/>

(LO 1.2.5)

(c) Complete the statement. (2 marks)

Unpresented cheques are deducted from the , and outstanding lodgements in transit are added to the in a bank reconciliation.

(LO 2.1.5)

(d) (i) Which statement correctly describes the money measurement principle? (1 mark)

- ☐ Minor items may be expensed immediately rather than capitalised.
- ☒ Only items that can be expressed in quantifiable terms are included in the financial statements.
- ☐ The company's accounts are kept separate from the personal affairs of its owners or directors.
- ☐ The company is assumed to continue operating for the foreseeable future.

(LO 2.2.3)

(ii) Identify the financial statement being described in each statement. (2 marks)

Statement	Financial statement
It shows how profits are distributed as either dividends or retained in the company.	The statement of changes in equity ▾
It is useful in assessing a company's ability to generate cash to pay its obligations.	The statement of cash flows ▾

(LO 2.2.1)

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

Statement	True	False
Expenses may be classified in the statement of profit or loss by their nature or function.	<input checked="" type="radio"/>	<input type="radio"/>

(LO 5.2.2)

End of task

Task 5 (11 marks)

(a) Identify whether the following items should be disclosed for each class of property, plant and equipment. (3 marks)

Item	Disclosed	Not disclosed
Depreciation methods used.	<input checked="" type="radio"/>	<input type="radio"/>
Repair costs of assets expected in the future.	<input type="radio"/>	<input checked="" type="radio"/>
Useful lives or depreciation rates used.	<input checked="" type="radio"/>	<input type="radio"/>

(LO 3.1.11)

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

Statement	True	False
Research is the application of existing knowledge to a plan or design to produce new or substantially improved products or services.	<input type="radio"/>	<input checked="" type="radio"/>
Research expenditure must be recognised as an expense in the statement of profit or loss as it is incurred.	<input checked="" type="radio"/>	<input type="radio"/>

(LO 3.2.7)

(ii) Complete the journal entries to record the acquisition. (2 marks)

Entry	
Debit	Bank £120,000 and Trade Payables £4,000 <input type="button" value="v"/>
Credit	Bank £120,000 and Trade Payables £4,000 <input type="button" value="v"/>

(LO 3.2.13)

(c) (i) Identify whether the following information would indicate that the machine is impaired. (3 marks)

Information	Would indicate	Would not indicate
Evidence of physical damage to the machine.	<input checked="" type="radio"/>	<input type="radio"/>
Cash flows generated by the machine are lower than expected.	<input checked="" type="radio"/>	<input type="radio"/>
The machine has been fully depreciated but is still in use.	<input type="radio"/>	<input checked="" type="radio"/>

(LO 3.3.3)

(ii) Which statement describes the recoverable amount of the machine? (1 mark)

- ☐ The amount that would have to be paid to acquire an equivalent machine.
- ☒ The higher of the machine's fair value less costs of disposal and its value in use.
- ☐ The original purchase price of the machine less accumulated depreciation.
- ☐ The residual value of the machine at the end of its useful life.

(LO 3.3.1)

End of task

Task 6 (10 marks)**(a) (i) Complete the statements. (2 marks)**

A change in an accounting policy should be applied A change in an accounting estimate should be applied

(LO 4.1.6)

(ii) How should this prior period error be corrected? (1 mark)

- ☐ Correct the error by adjusting only the 20X2 closing retained earnings.
- ☒ Correct the error retrospectively by restating the 20X1 comparative figures and adjusting the opening 20X2 retained earnings balance.
- ☐ Record the £200,000 as an expense in 20X2 when the error was discovered.
- ☐ Disclose the error in the notes only, without making any adjustments.

(LO 4.1.7)

(b) (i) Calculate the cost of the product to be included in the financial statements. (2 marks)

- Enter your answer to the nearest whole pound.

£

(LO 4.2.9)

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

Statement	True	False
The Last In, First Out (LIFO) method is permitted to be used to determine the cost of inventory.	<input type="radio"/>	<input checked="" type="radio"/>

(LO 4.2.2)

(c) Identify whether the events after the reporting period should be treated as an Adjusting event or a Non-adjusting event. (4 marks)


Statement	Adjusting	Non-adjusting
The bankruptcy of a customer.	<input checked="" type="radio"/>	<input type="radio"/>
The destruction of a major production plant by a fire.	<input type="radio"/>	<input checked="" type="radio"/>
Receipt of new information which indicates that an asset was impaired at the end of the reporting period.	<input checked="" type="radio"/>	<input type="radio"/>
The announcement of a plan to discontinue an operation.	<input type="radio"/>	<input checked="" type="radio"/>

(LO 4.3.7)

End of task

Task 7 (8 marks)

(a) Complete the statement. (1 mark)

The party that acquires the right to use an underlying asset in exchange for making repayments is called the 

(LO 4.5.1)

(b) (i) Calculate the depreciation charge for the year ended 31 December 20X1. (2 marks)

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

£

(LO 4.5.6)

(ii) Calculate the finance charge for the year ended 31 December 20X1. (1 mark)

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

£

(LO 4.5.6)

(iii) Calculate the lease liability at 31 December 20X1. (1 mark)

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

£

(LO 4.5.6)

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

Statement	True	False
Revenue is the income a company earns from its ordinary business activities, such as selling goods or providing services.	<input checked="" type="radio"/>	<input type="radio"/>

(LO 4.6.1)

(d) Calculate the transaction price that should be included as revenue. (2 marks)

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

£

(LO 4.6.8)

End of task

Task 8 (12 marks)

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

Operating profit margin	<input type="text" value="25.90"/> %
Trade payables payment period	<input type="text" value="45.9"/> days
Asset turnover (non-current assets)	<input type="text" value="1.4"/> times
Quick (acid test) ratio	<input type="text" value="1.0"/> :1

(LO 6.1.1)

(b) (i) Identify whether the statements about the change in the trade payables payment from 20X0 to 20X1 are true or false. (2 marks)

Statement	True	False
The change will have a positive impact on supplier goodwill.	<input type="radio"/>	<input checked="" type="radio"/>
The change could indicate cashflow issues.	<input checked="" type="radio"/>	<input type="radio"/>

(LO 6.2.3)

(ii) Complete the statements. (2 marks)

The return on equity ratio measures the company's The company has capacity to pay dividends in 20X1 than in 20X0.

(LO 6.2.1)

End of task

Task 9 (12 marks)

(a) Which TWO statements could explain the change in the gross profit margin from 20X0 to 20X1? (2 marks)

- ☐ The company raised its selling prices.
- ☒ Sales comprised a different product mix.
- ☐ Administrative office salaries increased.
- ☒ The cost of raw materials increased.

(LO 6.2.7)

(b) Identify whether the statements about the change in the interest cover are true or false. (2 marks)

Statement	True	False
The change may be caused by a lower operating profit in 20X1.	<input checked="" type="radio"/>	<input type="radio"/>
The change may be caused by the company repaying a bank loan.	<input type="radio"/>	<input checked="" type="radio"/>

(LO 6.2.7)

(c) Complete the statement. (1 mark)

A lower interest cover in 20X1 could mean that it will be more difficult to obtain finance in the future.

(LO 6.2.8)

(d) Identify whether the company's ratios are better or worse in 20X1 than in 20X0. (2 marks)

Ratio	Better	Worse
Asset turnover (net assets).	<input checked="" type="radio"/>	<input type="radio"/>
Trade receivables collection period.	<input type="radio"/>	<input checked="" type="radio"/>

(LO 6.2.2)

(e) Identify whether the statements regarding the change in the asset turnover (net assets) ratio are true or false. (2 marks)

Statement	True	False
The change may be caused by the company purchasing additional machinery in 20X1.	<input type="radio"/>	<input checked="" type="radio"/>
Assets are more efficient at generating profits in 20X1.	<input type="radio"/>	<input checked="" type="radio"/>

(LO 6.2.3)

(f) Which action could explain why both the asset turnover (net assets) and trade receivables collection period have increased? (1 mark)

- ☒ Longer credit terms were offered to customers to boost sales.
- ☐ A bad debt was written off in the year.
- ☐ A large cash payment was made to a credit supplier.
- ☐ The company delayed issuing invoices to customers.

(LO 6.2.4)

(g) Which TWO actions could be taken to reduce the company's trade receivables collection period? (2 marks)

- ☒ Offer a prompt payment discount to customers.
- ☐ Increase customers' credit limits.
- ☒ Make use of credit reference agencies.
- ☐ Lower selling price of goods.

(LO 6.2.5)

End of task



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