

# T Level Technical Qualification in Accounting

Specimen assessment material for first teaching

September 2022

Time: 2 hours 30 minutes

Paper Reference **XXXX/01**

## Paper 2: Application of Accounting

You must have a calculator.

Total Marks

### Instructions

- Use **black** ink or a ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are two sections in this question paper. Answer **all** questions in Section A and Section B.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*

### Information

- The total mark for this paper is 90.
- The marks for each question are shown in brackets.  
– *use this as a guide to how much time to spend on each question.*

### Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

**SXXXXXA**

**SECTION A**

**Answer ALL questions. Write your answers in the spaces provided.**

1 Give **one** advantage to an organisation of good data management.

(1)

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**(Total for Question 1 = 1 mark)**

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2 Give **two** stages in the parliamentary process of making a law.

(2)

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**(Total for Question 2 = 2 marks)**

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3 Explain **one** reason for preparing a trial balance.

(2)

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**(Total for Question 3 = 2 marks)**

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4 Name **one** factor that could cause a financial crisis in the global financial system.

(1)

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**(Total for Question 4 = 1 mark)**

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5 Explain one purpose of the Financial Services Compensation Scheme (FSCS).

(2)

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**(Total for Question 5 = 2 marks)**

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6 Explain **two** reasons why a financial services business should have an effective environmental, social and governance (ESG) policy.

(4)

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**(Total for Question 6 = 4 marks)**

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Dorota owns and runs *DGS*, a popular gardening service that also sells gardening products. The business owns a van that Dorota uses to travel between customers and carry gardening equipment and products. Demand for *DGS*'s gardening services is highest during the summer months. Most customers pay in cash with a small number of business customers given credit terms.

Dorota has seen an increase in house building activity in the area and thinks that this might be a good time to expand the business.

Dorota proposes to purchase a second van at a cost of £17 500 and employ a driver who would also undertake additional gardening services. Dorota believes that this could double the total revenue and profits for *DGS*.

Dorota has supplied you with some financial information from last year.

Income statement for <i>Dorota's Gardening Services (DGS)</i> for the year ended 20X2		
	£	£
Revenue from gardening services		22 250
Sales of gardening products		12 750
<b>TOTAL REVENUE</b>		<b>35 000</b>
Cost of sales	8 750	
<b>GROSS PROFIT</b>		<b>26 250</b>
<b>EXPENSES</b>		
Van running costs (fuel, tax, insurance etc.)	2 300	
Advertising	500	
Depreciation	1 000	
Other expenses	400	
		4 200
<b>PROFIT FOR THE YEAR</b>		<b>22 050</b>

Table 1

<b>Statement of financial position for <i>Dorota's Gardening Services (DGS)</i> as at 31 December 20X2</b>		
	<b>£</b>	<b>£</b>
<b>NON-CURRENT ASSETS</b>		
Van	12 000	
Gardening equipment	3 000	
<b>TOTAL NON-CURRENT ASSETS</b>		15 000
<b>CURRENT ASSETS</b>		
Inventory	1 500	
Trade receivables	2 000	
Cash at bank	5 000	
<b>TOTAL CURRENT ASSETS</b>		8 500
<b>TOTAL ASSETS</b>		23 500
<b>EQUITY</b>		
Owner's equity	5 200	
Profit for the year	22 050	
Drawings	15 000	
<b>TOTAL EQUITY</b>		12 250
<b>NON-CURRENT LIABILITIES</b>		
Bank loan	10 000	
<b>CURRENT LIABILITIES</b>		
Trade payables	1 250	
<b>TOTAL LIABILITIES</b>		11 250
<b>TOTAL EQUITY AND LIABILITIES</b>		23 500

Table 2



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## Section B

### Scenario 1

Two accountants have recently become senior partners in a well-established accountancy practice, *Leaford Williams Accountants (LWA)*. Part of their responsibilities is to supervise the work of trainee accountants and to sign off all work completed by the trainees.

*LWA* is located in an old three storey building. The ground and first two floors comprise a reception, consulting rooms and storerooms. The third floor has a conference room used for presentations and interviews. Due to the age of the building installing a lift is not possible.

The new senior partners face several challenges:

- An increase in competition from local accountancy practices
- A senior partner signing off the work completed by a trainee identified the following issues:
  - **Client 1:** a trainee has been pressurised to enhance the performance of the client's company by moving revenue entries from one year to another and leaving out figures from their statement of financial position
  - **Client 2:** a trainee has agreed that the client could claim an excessive amount of business expenses without the required procurement documentation
- There have been issues over staff misuse of social media and not dressing professionally at work. This has led to disagreements between staff and management over rules and two staff members have threatened to leave as they believe they are being unfairly treated
- A member of the administrative staff started with *LWA* when they were 22 years old. They have worked for the business for three years, but their wages have remained at less than the national living wage.

The new senior partners have identified the following priorities:

1. Attract and retain new clients to the practice
2. Improve the corporate image of the practice
3. Promote diversity and inclusivity in the composition of the workforce
4. Address unethical and unprofessional behaviour within the practice
5. Ensure that when preparing financial statements on behalf of clients that particular attention is paid to those areas prone to fraud.

The new senior partners also want to introduce a professional code of conduct for staff. However, some of the staff have been at the practice for many years and do not see the benefit of introducing such a change.

The new senior partners are also responsible for recruiting new staff. They have recently invited five applicants to interview for a bookkeeping position, one of whom is a visually impaired wheelchair user. The selection process will comprise a presentation, a written exercise, and a formal interview.

**You must use Scenario 1 to answer questions 8a - 8e.**

8a) Explain one ethical action that the trainee accountant should have taken when preparing Client 1's financial statements.

(2)

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b) Explain **one** action that LWA should take before signing off Client 2's financial statements.

(2)

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c) Explain **one** reasonable adjustment that the practice must make to comply with the Equality Act (2010) when interviewing the five applicants.

(2)

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**(Total for Question 8 =18 marks)**

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## Scenario 2

Decon is a sole trader who owns and runs *Decon Accountancy Practice (DAP)*, a micro business that has been operating for three years. Decon runs the practice with the help of a management accountant and a part-time bookkeeper.

*DAP* has a reputation for providing timely, reliable financial services and professional advice and has built up a client base who trust the practice and the services it provides.

Decon wants to maximise the profits of *DAP*. The business strategy is to grow *DAP* by opening a second office in a nearby town. This would give the practice access to an increased client base and improve its current capacity resulting in the potential for increased revenue and profits.

During the past three months Decon has had to address two significant issues which could impact upon this business strategy:

1. Decon applied to the bank for a business loan to fund the opening of the second office. The application was unsuccessful because Decon refused to purchase a loan protection insurance policy for this loan. Decon made a complaint using the bank's official complaints procedure, but three months later still does not have a final decision or any explanation from the bank as to why. A local solicitor has offered to resolve the problem for Decon.
2. The practice was recently the victim of a cyber-attack. An email containing malware was opened by the bookkeeper which resulted in the cyber-criminals being able to access clients' personal data including their bank accounts. To comply with the regulations of the protection of data, *DAP* is having to consider the ways in which it approaches cyber-security. Decon knows very little about cyber-security and has arranged to speak with an expert, but this has been delayed due to an upcoming change in the management of the cyber-security company.

**You must use Scenario 2 to answer questions 9a - 9d.**

9a) Involving a solicitor to resolve the dispute will incur additional costs that would not be incurred when using the ombudsman.

Explain **one other** reason why *DAP* should be advised to contact the appropriate ombudsman and not the solicitor to resolve the dispute with the bank.

(2)

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b) Explain the contribution that *DAP's* management accountant could make to the proposed business strategy being planned by *DAP*.

(3)

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**(Total for Question 9 = 26 marks)**

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### Scenario 3

A new client, Bea Atrill, has engaged the services of your accountancy practice to conduct an internal audit on their business. Bea has been referred to you for advice in your role as a trainee accountant.

Bea opened *Bea's Beauty House (BBH)* two years ago. This beauty salon offers a range of luxury treatments to include manicures and pedicures, facials, massage and make-up services and sells a range of beauty products. It also provides a service to local businesses who are invoiced, allowing 45 days for final settlement. There have been instances where invoices have not been paid on time resulting in cash flow issues for *BBH*.

Although Bea is working long hours, *BBH* is currently turning clients away as it does not have the capacity to offer all of its services. Bea predicts a further increase in demand and is considering growing the business by either using the resources of *BBH* plus take out a bank loan or taking on a partner who would invest in the business.

Bea's business strategy is to:

- remodel the salon and replace old equipment
- employ additional staff to cope with demand.

A survey at the salon has shown asbestos in the ceilings which will need to be removed as part of the remodelling work. This would mean closing the salon for 3 months. The work will cost £25 000 in addition to the £30 000 set aside for remodelling.

Bea is meeting with the bank to discuss a five-year secured business loan. The loan repayments with interest for this loan would amount to £6 804 a year for five years. The bank has asked Bea to bring financial information relating to *BBH* and benchmark figures for similar beauty salons to this meeting.

Bea has completed some preliminary research on salons of a similar size to *BBH*. These generate gross profit margins in the region of 80%, net profit margins in the region of 17.5%, and their staff costs account for 82% of total expenses.

Bea has provided you with some financial information for *BBH*.

<b>Statement of financial position for <i>Bea's Beauty House (BBH)</i> as at 31 December 20X2</b>		
	<b>£</b>	<b>£</b>
<b>NON-CURRENT ASSETS</b>		
Property (salon)	30 300	
Salon equipment	8 000	
		<u>38 300</u>
<b>CURRENT ASSETS</b>		
Inventory	13 900	
Trade receivables	2 576	
Bank	16 750	
		<u>33 226</u>
<b>TOTAL ASSETS</b>		<u>71 526</u>
<b>EQUITY</b>		
Owner's funds	11 466	
Profit	30 300	
Drawings	20 000	
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade payables	1 654	
<b>NON-CURRENT LIABILITIES</b>	48 106	
<b>TOTAL LIABILITIES</b>		49 760
<b>TOTAL EQUITY AND LIABILITIES</b>		71 526

Table 3

<b>Income statement for <i>Bea's Beauty House (BBH)</i> for the year ended 20X2</b>		
	<b>£</b>	<b>£</b>
Sales of services and products		148 300
Opening inventory	31 099	
Purchases	27 250	
Closing inventory	13 900	
Cost of goods sold		44 449
<b>GROSS PROFIT</b>		<b>103 851</b>
<b>EXPENSES</b>		
Heating and lighting	6 351	
Wages	57 200	
General/sundry expenses	7 500	
Depreciation	2 500	
<b>TOTAL EXPENSES</b>		<b>73 551</b>
<b>PROFIT FOR THE YEAR</b>		<b>30 300</b>

Table 4

You must use Scenario 3 to answer questions 10a - 10d.

10 a) Explain **two** recommendations that may appear in the internal audit report conducted by the accountancy practice for *BBH*.

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b) Explain **one** action you should take in your role as a trainee accountant to ensure that the financial information Bea has provided is suitable for taking to the bank.

(3)

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**Total for Question 10 = 28 marks)**

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**TOTAL FOR SECTION B = 72 MARKS**

**TOTAL FOR PAPER = 90 MARKS**