



The Association of Business Executives

NQF

Certificate

1.3 IA

Introduction to Accounting

Tuesday 9 June 2015, Morning

1. Time allowed: **3 hours**.
2. Answer **any four** questions.
3. All questions carry **25 marks**. Marks for subdivisions of questions are shown in brackets.
4. **No books, dictionaries, notes or any other written materials are allowed in this examination.**
5. Calculators, including scientific calculators, are allowed provided they are not programmable and cannot store or recall information. All other electronic devices, including mobile phones, are not permitted.
6. Note that £1 = 100 pence (p).
7. **Candidates who break ABE Examination Regulations will be disqualified from the examinations.**
8. Question papers must not be removed from the examination room.



Answer any four questions

Q1 Management is an important user group of financial information.

(a) Explain **four** reasons why management uses financial information. **(8 marks)**

(b) Describe **four** differences between financial and management accounting. **(8 marks)**

(c) Explain how the accounting concepts of objectivity, consistency and going concern help in meeting management needs. **(9 marks)**

(Total 25 marks)

Q2 (a) Explain the principles of double-entry bookkeeping and the roles of the different classes of ledger accounts. **(8 marks)**

(b) The following is the three-column cash book for Ahmed for the month ended 31 March 2015:

Cash Book

Date 2015	Details	Disc £	Cash £	Bank £	Date 2015	Details	Disc £	Cash £	Bank £
1 Mar	Balance b/d		120	650	4 Mar	Purchases - 113			500
5 Mar	Sales		340		7 Mar	Rent - DD			360
9 Mar	J. Stone	25		465	9 Mar	Stationery		76	
15 Mar	Sales		250		18 Mar	Bank		600	
18 Mar	Cash			600	19 Mar	Drawings - 114			200
22 Mar	P. Linkins	10		240	24 Mar	Equipment - 115			550
25 Mar	K. Khan	5		130	30 Mar	Travel		60	
27 Mar	Sales		320						

The following transactions took place and had not been posted to the accounts on 31 March 2015:

- Cheque received from D. Pope for £340, after claiming a discount of £15.
- Cheque 116 paid to J. Hague for £160, after claiming a discount of £10.

Balance the cash book at 30 March and, in your answer book, starting with the balances brought down, post the two cheques on 31 March, rebalancing the cash book at 31 March 2015. **(10 marks)**

(c) The following bank statement was received by Ahmed in respect of the month ended 31 March 2015:

Date	Description	In (£)	Out (£)	Balance (£)
1 Mar	Balance b/d			650
7 Mar	Cheque 113		500	150
7 Mar	Rent - Direct debit		360	210 o/d
11 Mar	Credit	465		255
18 Mar	Transfer	600		855
19 Mar	Cheque 114		200	655
25 Mar	Credit	240		895

Prepare the bank reconciliation statement at 31 March 2015.

(7 marks)
(Total 25 marks)

Q3 Hanna's trial balance at 31 March 2015 was as follows.

	£	£
Fixtures and fitting (cost)	8,400	
Fixtures and fittings - accumulated depreciation		4,200
Equipment (cost)	6,300	
Equipment - accumulated depreciation		1,900
Motor vehicle (purchased 1 April 2014)	10,500	
Opening inventory (stock)	6,200	
Accounts receivable (debtors)	9,500	
Accounts payable (creditors)		5,300
Bank	980	
Capital		21,100
Revenue (sales)		153,300
Purchases	63,400	
Returns inwards	1,250	
Carriage inwards	3,200	
Carriage outwards	4,300	
Discounts received		1,040
Salaries and wages	44,200	
Rent and rates	12,720	
Motor expenses	4,240	
Drawings	5,000	
Sundry expenses	6,650	
	186,840	186,840

The following additional information is also available at 31 March 2015:

1. Closing inventory (stock) is £6,450.
2. Salaries and wages to be accrued are £3,685.
3. Rent and rates has been prepaid by £530.
4. Accountancy fees of £300 had not been recorded in the books of account.
5. Purchases of £600 had been posted incorrectly to equipment during the year.
6. Hanna has decided to create a provision for doubtful debts of 4%.
7. Depreciation for the year to 31 March 2015 is to be provided as follows:
 - Fixtures and fittings - on a reducing balance basis at 50% per year
 - Equipment - on a straight line basis over three years (no residual value)
 - Motor vehicle - on a reducing balance basis at 35% per year.

Required

- (a) Prepare a Statement of Comprehensive Income (Trading, Profit and Loss Account) for Hanna for the year ended 31 March 2015. **(15 marks)**
 - (b) Prepare a Statement of Financial Position (Balance Sheet) for Hanna at 31 March 2015. **(10 marks)**
- (Total 25 marks)**

Q4 (a) Explain the differences between cash and profit, illustrating your answer with an example of the payment of rent. **(5 marks)**

(b) The following information relates to Green Ltd for the year ended 31 March 2014 and 2015:

	2014	2015
	£'000	£'000
Inventory (stock)	140	130
Accounts receivable (debtors)	100	120
Accounts payable (creditors)	85	70
Non-current assets (cost)	150	170

In addition, the following transactions took place in the year ended 31 March 2015:

- No non-current assets were sold during the year.
- Depreciation for the year was £30,000.
- Ordinary share capital of £50,000 was issued and fully paid.
- A bank loan of £20,000 was repaid.
- Interest paid for the year was £3,000.
- Tax paid for the year was £14,000.
- Operating profit before interest and tax was £48,000.

Required:

Prepare for Green Ltd for the year ended 31 March 2015:

- (i) A Reconciliation of the Operating Profit Before Tax to Net Cash Inflow **(7 marks)**
(ii) A Statement of Cash Flows **(9 marks)**

(c) Describe two uses of a Statement of Cash Flows. **(4 marks)**
(Total 25 marks)

Q5 The following information is available for Orange Ltd for the year ended 31 March 2015:

	£'000
Revenue (sales)	3,600
Cost of sales	2,160
Expenses	1,134
Dividend paid	102
Non-current (fixed) assets	650
Current assets	
Inventory (stock)	250
Accounts receivable (debtors)	300
Cash at bank	50
Current Liabilities	
Accounts payable (creditors)	200
Ordinary share capital	300
Retained profits	750

Notes:

1. All purchases and sales were made on credit.
2. The inventory (stock) value was the same at start and end of the year.

Required:

(a) Calculate the following ratios (to two decimal places) for Orange Ltd:

- (i) Gross profit ratio
- (ii) Net profit ratio
- (iii) Return on capital employed (use share capital and retained profits)
- (iv) Working capital ratio
- (v) Acid test (liquidity) ratio
- (vi) Accounts receivable (debtors) collection period (in days)
- (vii) Accounts payable (creditors) payment period (in days)

(14 marks)

(b) Explain the purposes and limitations of accounting ratios, illustrating your answer with reference to part **(a)**.

(11 marks)

(Total 25 marks)

- Q6 (a)** Copy the following table into your answer book and tick the appropriate column showing how each of the expenses should be categorised:

Expense	Direct cost	Indirect cost	Fixed cost	Variable cost
Materials to manufacture each unit				
Hourly rate paid to office cleaner				
Annual office rent				
Manufacturing manager's salary				

(4 marks)

- (b)** Explain the distinctions between direct costs and indirect costs, comparing these with fixed costs and variable costs. **(8 marks)**

- (c)** John is considering two products, one of which he may launch in the future. Forecast information is as follows:

	Product A	Product B
Sales price per unit	£10.00	£12.00
Expected sales in units	20,000	30,000
Fixed costs	£24,000	£60,000
Variable cost per unit	£4.00	£7.00

Calculate the break-even points in units and £s and the profit/(loss) that would be earned by each product if the expected levels of sales are achieved. Suggest which product John should select and give reasons for your selection. **(13 marks)**
(Total 25 marks)

- Q7 (a)** Explain **five** main benefits of preparing budgets. **(10 marks)**

- (b)** Prepare for Peter, in columnar form, a cash budget for the three months, July, August and September 2015. Use the following information:

	July	August	September
Sales	200 units @ £10	400 units @ £10	500 units @ £11
Materials purchased	600 units @ £5	500 units @ £5	800 units @ £6
Wages	£500	£1,000	£1,000
Expenses	£400	£600	£600
Equipment	£4,000		

- Sales are to be made 50% for cash and 50% on one month's credit.
- Purchases are to be made on one month's credit.
- The equipment is to be paid by four equal quarterly instalments commencing July.
- The cash balance at 1 July 2015 will be £1,000.
- Peter intends to take drawings equal to half of the excess of total income over total expenditure in any month.

(15 marks)
(Total 25 marks)

Q8 (a) Explain the purpose and objectives of cost accounting. **(4 marks)**

(b) Asif recorded the following inventory balance and movements during the month of April 2014:

1 April	Opening inventory balance	200 units @ £3.50 each
3 April	Purchases	500 units @ £4.20 each
12 April	Issues	600 units
15 April	Purchases	500 units @ £4.30 each
25 April	Issues	400 units
30 April	Purchases	300 units @ £4.35 each

Calculate, using the AVCO method of stock valuation, the closing inventory (stock) value at 30 April 2014, showing the valuation after each purchase and issue.

(13 marks)

(c) Calculate Asif's total labour cost for the month of April 2014 from the following information about his three employees. The normal working hours are 150 per month.

Employee	Status	Hours worked/ items made	Rate of pay
Sarah	Full time, overtime allowed	160 hours	£1,200 per month basic and overtime at time and a half
Blossom	Hourly pay plus bonus for items made over 1,000	75 hours 1,087 items made	£8 per hour Bonus of £1 per item made
Daisy	Paid only per item made	1,238 items made	£0.50 per item for first 500 £1.00 per item for next 500 £1.20 per item over 1,000

(8 marks)

(Total 25 marks)

End of question paper