



NQF

Certificate

1.3 IA

Introduction to Accounting

Tuesday 7 June 2016, 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. **Candidates who break ABE Examination Regulations will be disqualified from the examinations.**
7. **Question papers must not be removed from the examination room.**



Answer any four questions

Q1 (a) Explain what is meant by each of the following terms:

- (i) Direct cost
- (ii) Indirect cost

(4 marks)

(b) Copy the following table into your answer book. The costs listed are for a company that makes clothing.

Cost	Direct	Indirect
Factory heat and light		✓
Cloth and buttons		
Machine maintenance		
Factory manager's salary		
Machinist's wages		
Royalties payable on sales		
Factory security costs		

Identify whether each cost is either a direct cost or an indirect cost, by ticking the appropriate boxes in the table. The first cost has been completed as an example. **(6 marks)**

(c) Nicole is planning to launch a new product and is considering various options. The following information summarises the costs and income for one of the options, Product A:

- Nicole expects to be able to sell 1,000 units of Product A at a price of £6.00 per unit.
- The projected variable costs per unit are £4.50.
- The fixed costs involved in Product A are expected to be £3,000.

Required:

- (i) Calculate the break-even point in units for Product A. **(4 marks)**
- (ii) Calculate the profit/(loss) in £ if Nicole is only able to sell 500 units of Product A. **(4 marks)**
- (iii) Calculate the break-even point, in units, if the sales price per unit is set at £8.50 per unit. Assume the other details remain the same as in the original plan. **(3 marks)**
- (iv) Calculate the lowest sales price Nicole could charge for Product A and still break-even. (Assume the fixed and variable costs remain as in the original plan and the projected sales remain at 1,000 units). **(4 marks)**

(Total 25 marks)

Q2 Tati Ltd has provided the following summary information from its final accounts for the year to 30 April 2016:

	£000
Revenue (sales)	180
Cost of sales	(100)
Sundry expenses	(60)

Notes:

1. The inventory (stock) at 1 May 2015 cost £10,000.
2. The retained profits at 1 May 2015 were £20,000.

Non-current assets (net book value)	100
Current assets	
Inventory (stock)	10
Trade receivables (debtors)	15
Cash at bank	5
	<u>130</u>
Capital and reserves	
Ordinary share capital (£1 shares) (issued in 2011)	60
Retained profits	40
	<u>100</u>
Current liabilities	
Trade payables (creditors)	30
	<u>130</u>

Required:

(a) Calculate, to two decimal places, the following at 30 April 2016:

- (i) Return on average capital employed
- (ii) Gross profit to sales
- (iii) Net profit to sales
- (iv) Asset turnover
- (v) Working capital ratio
- (vi) Acid test ratio
- (vii) Trade receivables (debtor) days
- (viii) Trade payables (creditor) days

(15 marks)

(b) The following ratios were calculated for the year to 30 April 2015:

Return on average capital employed	35%
Gross profit to sales	60%
Asset turnover	3 times
Working capital ratio	3:1
Trade receivables (debtor) days	30 days
Trade payables (creditor) days	60 days

Required:

Discuss the performance of Tati Ltd over the period, highlighting any areas of concern about the business at 30 April 2016.

(10 marks)

(Total 25 marks)

- Q3 (a)** Sashe Ltd is preparing its budgets for the forthcoming year and has determined that its limiting budgeting factor is the number of units of product that it can sell.

Explain the order in which the sales budget, labour costs budget and materials, and production budgets would need to be completed. Your answer should include a discussion of the factors that management would need to consider in setting the budgets. **(9 marks)**

- (b)** Sashe Ltd is preparing its cash budget for the three months July, August and September 2016. The projected balances on the following accounts at 1 July 2016 are expected to be:

Bank	£1,000	Dr
Trade receivables	£10,500	
Trade payables	£6,300	

Sashe Ltd allowed one month's credit on customers and took one month's credit from suppliers each month until 30 June 2016. In respect of purchases from 1 July 2016 onwards, suppliers have agreed to allow two month's credit.

The following are projected for the three months July to September 2016:

	July	August	September
	£	£	£
Sales	16,800	18,000	18,400
Purchases	8,000	8,100	7,000
Wages	4,000	4,000	3,900
Other expenses	1,400	1,400	1,400

25% of sales income is expected to be received immediately in cash with the remaining 75% due to be received one month after sale.

Wages and other expenses will be paid for in the month incurred.
Included in other expenses is £400 per month for depreciation.

New equipment is to be bought in July for £32,000.
It is to be paid for in four equal quarterly instalments, starting in August 2016.

Required:

Prepare the cash budget for Sashe Ltd for each of the three months July, August and September 2016 in columnar form. Show the cash balance at the end of each month.

(16 marks)
(Total 25 marks)

- Q4 (a)** Explain why it is both required and advisable for incorporated organisations to prepare a Statement of Cash Flows. **(6 marks)**
- (b)** Explain how the direct method for preparing a Statement of Cash Flows differs from the indirect method. **(4 marks)**
- (c)** The following information relates to Kgale Ltd for the year ended 30 April 2016:

	£	
Bank at 1 May 2015	2,150	Dr
Bank at 30 June 2016	750	Cr
Cash received from customers	133,100	
Cash paid to suppliers	64,300	
Cash paid to and on behalf of employees	38,700	
Interest paid for the year	3,000	
Tax paid for the year	6,000	
Purchase of non-current (fixed) assets	75,000	
Issue of debentures	30,000	
Share issue	20,000	
Dividends received	1,000	

Required:

Prepare for Kgale Ltd the Statement of Cash Flows, using the direct method of calculating net cash inflow from operating activities, for the year ended 30 April 2016. **(15 marks)**
(Total 25 marks)

- Q5 (a)** Explain the information **each** of the following groups of users might be interested in obtaining from the published accounts of a large company:
- (i) Lenders **(3 marks)**
 - (ii) Employees **(3 marks)**
 - (iii) Customers **(3 marks)**
 - (iv) Environmental pressure groups. **(3 marks)**
- (b)** Explain what is meant by the following accounting concepts, and explain how they are applied in a Statement of Financial Position of a company, giving an example of the application of **each** concept:
- (i) Prudence **(3 marks)**
 - (ii) Accruals **(3 marks)**
 - (iii) Business entity **(3 marks)**
- (c)** Explain two benefits to business owners of forming a limited company rather than a partnership. **(4 marks)**
(Total 25 marks)

Q6 (a) Silvia buys and sells knives and forks. During April 2016, the following inventory movements took place in her business:

1 April	Opening inventory	100 units at £1.00 each
5 April	Purchases	400 units at £1.10 each
14 April	Issues	300 units
18 April	Purchases	400 units at £1.05
27 April	Issues	500 units

Required:

Calculate the value of the inventory for Silvia, after each issue and purchase, using each of the following methods of valuation:

- (i) FIFO (first in, first out) **(9 marks)**
- (ii) AVCO (average cost) **(8 marks)**

(b) Silvia has three employees:

- Jake, a manager, who earns a salary of £26,520 per year and is paid every four weeks throughout the year. His next pay date is 29 April 2016.
- Cindy, who is paid £9.00 per hour for the first 35 hours each week and at time and a quarter for overtime. In April 2016, Cindy worked one week of 38 hours, one week of 39 hours and the remaining two weeks of 40 hours each.
- Kevin, who is paid on a piece rate basis. The rates are as follows:

Range	Rate
0 – 50 units	£1.00 per unit
51 – 150 units	£1.10 per unit
151 – 250 units	£1.20 per unit

Kevin made 155 units in the first week ended 8 April, 170 units in the week ended 15 April, 220 units in the week ended 22 April and 180 units in the week ended 29 April 2016.

Required:

Calculate the weekly wages of Jake, Cindy and Kevin for the four-week period ended 29 April 2016. **(8 marks)**
(Total 25 marks)

Q7 David and Samuel are in partnership sharing profits and losses in the ratio 3:1 respectively. The following trial balance was extracted from the books at 30 April 2016:

	£	£
Land – at cost	80,000	
Buildings – at cost	92,000	
– accumulated depreciation		27,600
Fixtures and fittings – at cost	12,000	
– accumulated depreciation		4,800
Opening Inventory (stock) at 1 May 2015	3,400	
Trade receivables (debtors)	5,000	
Trade payables (creditors)		1,700
Bank overdraft		1,250
Revenue (sales)		69,900
Purchases	24,600	
Rent and rates	4,800	
Sundry expenses	1,300	
Heat and light	4,750	
Salaries and wages	12,700	
Capital – David		111,000
– Samuel		37,000
Current – David	1,070	
– Samuel	1,130	
Drawings – David	6,300	
– Samuel	4,200	
	<u>253,250</u>	<u>253,250</u>

The following information is also available at 30 April 2016:

- Closing inventory (stock) is valued at £3,720.
- Wages and salaries of £250 have been prepaid.
- Rent and rates of £600 are accrued due.
- Depreciation for the year to 30 April 2016 is to be provided as follows:
 - Land – nil
 - Buildings – 5% per year on a straight line basis, assuming no residual value
 - Fixtures and fittings – 40% per year on the reducing balance basis
- Partnership salaries are to be provided as follows:
 - David £3,300
 - Samuel £1,800
- Interest on partners' capital is payable at 4% on the opening capital balance per year.

Required:

- Prepare the Statement of Comprehensive Income for David and Samuel for the year ended 30 April 2016. **(11 marks)**
 - Prepare the current accounts for David and Samuel, in columnar form, for the year ended 30 April 2016. **(6 marks)**
 - Prepare the Statement of Financial Position for David and Samuel at 30 April 2016. **(8 marks)**
- (Total 25 marks)**

Q8 At 1 April 2016 the following draft trial balance was extracted from the accounts of Vivian:

	£	£
Revenue (sales)		47,300
Purchases	21,400	
Opening inventory (stock)	4,900	
Salaries	10,300	
Rent	4,800	
Sundry expenses	1,100	
Drawings	10,200	
Bank	1,900	
Cash	100	
Trade receivables (debtors)	5,300	
Trade payables (creditors)		3,700
Equipment – at cost	10,000	
– accumulated depreciation		6,000
Capital		13,000
	<u>70,000</u>	<u>70,000</u>

The following transactions took place in April 2016:

- 7 April Paid supplier, Anne, by cheque £950 for amount owed after taking £50 discount.
- 12 April Bought goods on credit, £1,200.
- 13 April Paid rent by cheque, £2,000.
- 15 April Paid for sundry expenses by cash, £50.
- 20 April Cheque for £570 received from customer, Simon, in full settlement of an account of £600.
- 25 April Paid for new equipment by cheque, £2,100.
- 27 April Cheque received for cash sales paid directly into the bank, £3,400.
- 28 April Paid salaries by cheque, £900.
- 29 April Vivian took drawings of £500 by cheque.

Required:

- (a) Prepare the three column cash book for Vivian for April 2016, balancing the cash and bank accounts at 30 April. **(12 marks)**
 - (b) Prepare the trial balance of Vivian at 30 April 2016. **(13 marks)**
- (Total 25 marks)**

End of question paper