NQF

Certificate

1.3 IA

Introduction to Accounting

Tuesday 1 December 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. **Candidates who break ABE Examination Regulations will be disqualified from the examinations.**
7. **Question papers must not be removed from the examination room.**

Q1 **(a)** Describe the following types of budgets and identify two advantages and two disadvantages of each:

(i) Zero-based budgets
(ii) Incremental budgets **(12 marks)**

(b) Explain what is meant by the term 'limiting budget factor' and discuss its role in the setting of budgets. **(5 marks)**

(c) Explain what is meant by each of the following:

(i) Flexible budgets
(ii) Rolling budgets **(8 marks)**
(Total 25 marks)

Q2 The following information relates to Russet Ltd for the year ended 31 October 2015:

	£000
Depreciation for the year	80
Operating profit before interest and tax	195
Interest paid for the year	35
Tax paid for the year	30
Dividends paid for the year	50

The following balances were extracted from the accounts:

	31 October 2014	**31 October 2015**
Inventory (stock)	120	130
Accounts receivable (debtors)	160	125
Accounts payable (creditors)	90	85
Cash at bank	10	60

In addition, the following transactions took place in the year ended 31 October 2015:
- Non-current assets were sold at book value of £50,000.
- Replacement non-current assets costing £120,000 were purchased.
- The company issued ordinary share capital of £20,000.
- A long-term loan of £80,000 was repaid by Russet Ltd.

Required:

(a) Prepare for Russet Ltd for the year ended 31 October 2015:

(i) A reconciliation of the Operating Profit before Tax to Net Cash Inflow from Operating Activities. **(7 marks)**
(ii) The Statement of Cash Flows. **(12 marks)**

(b) Describe three uses of a Statement of Cash Flows. **(6 marks)**
(Total 25 marks)

Q3 At 31 October 2015 the following draft trial balance was extracted from the accounts of Sycamore Ltd. This did not balance and a suspense account was therefore opened.

	£000	**£000**
Revenue (sales)		82
Purchases	41	
Opening inventory (stock)	4	
Salaries and wages	22	
Rent and rates	9	
General expenses	7	
Motor expenses	1	
Discounts allowed	4	
Trade receivables (debtors)	10	
Trade payables (creditors)		6
Cash at bank	2	
Motor vehicles – at cost	16	
– accumulated depreciation		12
Ordinary share capital (£1 shares)		13
Retained profits		5
Suspense	2	
	118	118

Investigation revealed the following errors and omissions:

1. General expenses included £1,000 which should have been posted to motor expenses.
2. Purchases included capital equipment costing £3,000 bought on 30 October 2015.
3. A bank reconciliation revealed that £2,000 had been received at the bank from a debtor but had not been recorded in either the cash book or trade receivables.
4. An invoice for £10,000 to a customer had not been posted to trade receivables (debtors) although it had been correctly posted to revenue (sales).
5. Discounts received had been incorrectly debited to the discounts allowed account. There were no discounts allowed during the period.

Required:

(a) Prepare journal entries to record the correction of the above errors and omissions. (Narrations for each journal entry are not required.) **(11 marks)**

(b) Prepare the Suspense account to show the opening balance and the appropriate corrections. **(4 marks)**

(c) Prepare the revised Trial Balance for Sycamore Ltd at 31 October 2015 after corrections have been made. **(10 marks)**
(Total 25 marks)

Q4 (a) Explain each of the following terms, used in break-even analysis:

(i) Fixed costs
(ii) Variable costs
(iii) Contribution per unit
(iv) Break-even point
(v) Margin of safety

(10 marks)

(b) The following information summarises the costs and income for a product sold by Sasha over the last three months, 1 September to 30 November 2015.

Sales price per unit made and sold	£8.00
Sales in units from 1 September to 30 November 2015	2,500
Variable costs per unit	£3.00
Fixed costs	£2,000

Sasha has decided to market the product more strongly in future and estimates the following for the next three months from 1 December 2015 to 29 February 2016.

Projected sales price per unit made and sold	£7.50
Projected sales in units from 1 December 2015 to 29 February 2016	6,000
Variable costs per unit	£3.00
Fixed costs	£4,500

Required:

Calculate:

(i) The break-even point for the last three months, 1 September to 30 November 2015, in units and £s. **(5 marks)**
(ii) Profit/(loss) in £s for the period 1 September to 30 November 2015. **(3 marks)**
(iii) The projected break-even point in units for the next three months, 1 December 2015 to 29 February 2016. **(4 marks)**
(iv) The projected profit/loss in £s for the next three months from 1 December 2015 to 29 February 2016. **(3 marks)**

(Total 25 marks)

Q5 (a) Describe how **each** of sole traders, partnerships and limited companies account for:

(i) Owner's capital
(ii) The sharing and distribution of profits
(iii) Taxation on profits

(9 marks)

(b) Describe the type of financial information that a large company produces in its Annual Report that would be of interest to prospective shareholders. Your answer should explain why the information you have identified would be of interest. **(6 marks)**

(c) Explain how the following assist prospective shareholders when they are comparing potential investments in companies:

(i) Going concern concept
(ii) Materiality concept
(iii) Accounting standards

(10 marks)
(Total 25 marks)

Q6 The following trial balance was extracted from the books of Leadwood Ltd at 31 October 2015.

	£000	£000
Revenue (sales)		3,060
Purchases	990	
Opening inventory (stock)	85	
Salaries and wages	640	
Rent and rates	310	
Heat and light	125	
Motor expenses	150	
Sundry expenses	280	
Interim dividends paid	100	
Trade receivables (debtors)	180	
Trade payables (creditors)		160
Cash at bank	65	
Land and buildings – at cost	800	
– accumulated depreciation		60
Plant and machinery – at cost	110	
– accumulated depreciation		40
Motor vehicles – at cost	80	
– accumulated depreciation		70
Ordinary share capital (£1 shares)		100
Share premium		10
Retained profits		415
	3,915	3,915

The following information is also available at 31 October 2015:

1. Closing inventory (stock) is valued at £105,000.
2. Wages and salaries of £60,000 are accrued.
3. Rent and rates of £20,000 have been prepaid.
4. Depreciation for the year to 31 October 2015 is to be provided as follows:
   - Land – nil.
   - Buildings (cost £200,000) – 3% on cost, assuming no residual value.
   - Plant and machinery – straight-line depreciation basis over a five year life with a residual value of £10,000.
   - Motor vehicles – on a reducing balance basis at 50% per year.
5. Provision is to be made for tax on profits of £109,000.
6. A transfer of £700,000 is to be made to a newly created general reserve.
7. The directors have decided not to pay a final dividend.

Required:

(a) Prepare the Statement of Comprehensive Income for Leadwood Ltd for the year ended 31 October 2015. **(14 marks)**

(b) Prepare the Statement of Financial Position for Leadwood Ltd at 31 October 2015. **(11 marks)**
(Total 25 marks)

Q7 Mangosteen Ltd has provided the following summary information from its final accounts for the year to 31 October 2015:

	£000	**£000**
Revenue (sales)		160
Opening inventory (stock)	10	
Purchases	90	
Closing inventory (stock)	(20)	(80)
Operating costs		(60)
Interest on loan		(5)
		15
Retained profit b/f		25
Retained profit c/f		40
Non-current assets (net book value)		85
Current assets		
Inventory (stock)		20
Trade receivables (debtors)		15
Cash at bank		8
		128
Ordinary share capital (£1 shares)		30
Retained profits		40
		70
Non-current liabilities		
Loan		48
Current liabilities		
Trade payables (creditors)		10
		128

Required:

(a) Calculate, to two decimal places, the following at 31 October 2015:

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

(15 marks)

(b) The following ratios were calculated for the year to 31 October 2014:

Gross profit to sales	59%
Net profit to sales	28%
Return on average capital employed	32%
Current ratio	2.1:1
Acid test ratio	1.2:1
Trade receivables (debtor) days	28 days
Trade payables (creditor) days	60 days

Required:

Examine the performance of Mangosteen Ltd over the period. Your answer should make particular reference to profitability and liquidity, giving possible reasons to explain any changes in performance over the two years. **(10 marks)**

(Total 25 marks)

Q8 (a) Identify four objectives of cost and management accounting. **(4 marks)**

(b) Kagiso has three weekly-paid employees, Kaylar, Mercy and Sammy, who are employed to work on different tasks.

In the week to 31 October 2015:

- Kaylar worked for 41 hours. 35 hours were at £12 per hour. Four hours were paid at time and a quarter and the remaining two hours were paid at time and a half.
- Mercy and Sammy are paid a basic rate of £100 each week so long as they produce 50 units during the week.
  Mercy produced 80 units in the week.
  Sammy produced 170 units in the week.

Kagiso's rates of payment for producing units within the following ranges are as follows:

Range	**Rate**
51 – 75 units	£2.10 per unit
76 – 100 units	£2.30 per unit
101 – 150 units	£2.40 per unit
151 – 200 units	£2.50 per unit

A bonus is also paid in arrears for the employee of the month. Mercy is entitled to £100, payable in the last week of October.

Required:

Calculate the weekly wages paid to Kaylar, Mercy and Sammy for the week ended 31 October 2015. **(13 marks)**

(c) The following inventory movements took place in Kasigo's business during October 2015

1 October	Opening inventory	500 units at £4.00 each
4 October	Issues	400 units
13 October	Purchases	500 units at £4.10 each
19 October	Issues	300 units
25 October	Purchases	400 units at £4.15 each

Required:

Calculate, for Kasigo, using the FIFO inventory method of valuation, the closing inventory (stock) value at 31 October 2015, showing the balance after each issue and purchase. **(8 marks)**
(Total 25 marks)

End of question paper

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