

OLLSCOIL NA hÉIREANN, GAILLIMH
THE NATIONAL UNIVERSITY OF IRELAND, GALWAY

SEMESTER I EXAMINATIONS 2000/01

DIPLOMA IN BUSINESS STUDIES EXAMINATIONS

ACCOUNTING

(AY871)

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Time allowed: TWO HOURS

Candidates are required to attempt question ONE and TWO other questions

Question 1 - COMPULSORY

Each multiple choice question carries 2½ marks.

Saturn Limited prepares its accounts to 30th September each year. You are given the following extract from the trial balance of Saturn Limited at 30th September 2000:

	Dr £	Cr £
Plant & Equipment @ cost	64,000	
Plant & Equipment – aggregate depreciation – 1 st October 1999		26,500
Bank overdraft		4,670
Trade Debtors	32,300	
Provision for bad debts		1,110
Stock – 1 st October 1999	12,660	
Sales		195,200
Purchases	123,540	
Bad debts charge	620	

Additional information:

- An item of plant & equipment that cost £15,800 was sold for £4,170. The aggregate depreciation relating to the plant on the date of sale was £10,330. This transaction has not yet been accounted for in the books of Saturn.
- Saturn charges depreciation on plant & equipment at the rate of 20% on a reducing balance basis. A full year's depreciation is charged in the year of acquisition and none in the year of disposal.
- Additional bad debts of £300 have yet to be written off. Saturn wishes to maintain a provision for bad debts equal to 2½% of trade debtors.
- Closing stock at cost amounted to £10,380.

Questions 1 to 6 are based on the information given to you about Saturn Ltd. above.

- Profit or loss on the sale of the item of plant & equipment should be:
 - Profit of £1,300
 - Loss of £206
 - Loss of £1,300
 - Loss of £9,460
- The depreciation charge for the year should be:
 - £9,640
 - £6,406
 - £7,500
 - £4,340
- The net charge/credit for bad debts in the Profit & Loss Account of Saturn for the year ended 30th September 2000 should be:
 - £120 – credit
 - £1,710 – charge
 - £10 – credit
 - £610 – charge

[Question 1 continues on the next page...]

...Question 1 continued from previous page]

4. On the balance sheet of Saturn, Trade Debtors, net of Provision for Bad Debts, should be:
- a) £31,190
 - b) £29,280
 - c) £31,380
 - d) £31,200
5. The Gross Profit for the year ended 30th September 2000 should be:
- a) £69,380
 - b) £71,660
 - c) £113,160
 - d) £73,940
6. What would the effect be on the gross profit if stocks were to be restated at a Net Realisable Value of £8,320:
- a) Increase of £4,340
 - b) Increase of £8,320
 - c) Decrease of £2,060
 - d) Decrease of 4,340

Jupiter Limited has been in the exploration business for many years. The following is an extract from Jupiter's Balance Sheet as at 30th June 1999:

	<u>£</u>
Issued Share Capital	
ordinary shares @ 50p each	600,000
Share premium	200,000
 Profit & Loss Account Balance	 850,000
Shareholders Funds	<u>£1,650,000</u>

Additional Information relating to the year ended 30th June 2000:

- i. Retained Profit after dividends for the year ended 30th June 2000, amounted to £122,000.
- ii. The company has only one element of long-term debt, £300,000 5% Debentures.
- iii. During the year ended 30th June 2000 the company issued 50,000 additional Ordinary Shares of 50p each at a premium of 10p per share.
- iv. The company declared a dividend of 5p per share for the year ended 30th June 2000, to be paid on all shares in issue at the year end.

Questions 7 to 9 are based on the information given to you about Jupiter Ltd. above.

7. The total dividend declared for the year amounted to:
- a) £32,500
 - b) £62,500
 - c) £31,250
 - d) £41,500

[Question 1 continues on the next page...]

...Question 1 continued from previous page]

8. Total Shareholders Funds as at 30th June 2000 amounted to:
- a) £1,700,000
 - b) £1,772,000
 - c) £1,802,000
 - d) £625,000
9. Earnings Per Share (EPS) for the year ended 30th June, based on the number of shares in issue at that date amounted to:
- a) 14.76p
 - b) 9.76p
 - c) 15.33p
 - d) 22.17p

The following questions 10 to 12 are stand-alone:

10. Which of the following is **not** shown as an adjustment to 'Operating Profit' in determining the 'Net Cash Flow from Operating Activities' in a 'Cash Flow Statement':
- a) Decrease in Creditors.
 - b) Increase in Stocks.
 - c) Decrease in Net Debt.
 - d) Depreciation.
11. If Corporation tax due and unpaid at the start of the reporting year was £20,000, the Corporation tax charge for the year is £30,000 and Corporation tax due and unpaid at the end of the year is £35,000, what amount would appear in the Cash Flow Statement for 'Corporation tax paid'?
- a) £15,000
 - b) £30,000
 - c) £35,000
 - d) £25,000
12. Which of the following statements is **false**?
- a) A business can be profitable even though it has a deficit of cash.
 - b) A business can be profitable in the short term, even though current expenditure and costs exceed revenue.
 - c) A business can have a cash surplus, even though it is suffering trading losses.
 - d) Continued cash deficits can not be sustained regardless of the profitability of a business.

(2½ marks each)
Total marks: 32

Question 2

The following trial balance has been extracted from the accounts of Agua Fuerte Limited as at 30th September 2000:

	Dr £	Cr £
Stock as at 1st October 1999	82,000	
Purchases	490,000	
Selling & Distribution Expenses	40,300	
Property and equipment rental	36,000	
Energy costs	56,000	
Manufacturing Equipment	459,000	
Aggregate Depreciation - Manufacturing Equipment as at 1st October 1999		188,000
Wages & Salaries	148,400	
Trade Debtors	97,000	
Insurance Prepayment as at 1st October 1999	2,600	
Trade Creditors		52,300
Energy costs accrual as at 1st October 1999		9,400
Insurance	18,600	
Sales		930,000
Cash & Bank	56,000	
Ordinary Shares of 50p each		260,000
Share Premium		25,000
General administration expenses	22,000	
Profit & Loss Account balance as at 1st October 1999		43,200
	1,507,900	1,507,900

Additional information:

- i) The company's accountant omitted to process a cheque payment to a creditor on the last day of the year of £12,000.
- ii) Depreciation is to be provided on Manufacturing Equipment on a reducing balance basis at a rate of 22% pa.
- iii) Stock on hand at 30th September 2000 amounted to £96,000
- iv) At 30th September 2000, Energy costs due unpaid amounted to £11,200 and Insurance prepaid amounted to £3,500.
- v) The tax charge for the year is £33,400.
- vi) The directors have declared a dividend for the year of 5p per Ordinary share in issue.

[Question 2 continues on the next page...]

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Required:

- a) Prepare the profit and loss account for Agua Fuerte Limited for the year ended 30 September 2000 and a Balance Sheet as at that date.
- (26 Marks)**
- b) Briefly explain what is meant by the accruals concept. Use two examples from the accounts of Agua Fuerte Limited to illustrate your explanation.

(8 Marks)

Total marks 34

Question 3

Rosemary set up Organilife Limited three years ago. The company sources and supplies organic produce to the western retail market. Rosemary believes that her philosophy of only procuring the best produce coupled with their state of the art order filling, storage and delivery system has driven the company's success to date.

The company is ready to expand its operations and needs to access loan finance to facilitate these plans. Once they managed to get over the first few difficult months of trading Rosemary never really focused on the company's finances. At Rosemary's request you have prepared the following accounts covering the last two years. Rosemary was surprised at some of the figures and has asked you for a more detailed analysis.

Organilife Limited

Profit & Loss Account for the years ended 31st October 2000 and 1999

	2000	£	1999	£
Operating activities				
Turnover		520,000		410,000
Cost of Sales		<u>327,600</u>		<u>241,900</u>
Gross Profit		192,400		168,100
Expenses				
Storage	38,000		32,600	
Transportation (Includes Depreciation)	45,900		30,750	
Marketing & Sales	22,200		16,000	
IT Systems (Includes Depreciation)	11,800		10,700	
Other Operating Expenses	24,800		24,000	
Administration (Includes Depreciation)	<u>22,000</u>		<u>19,500</u>	
		164,700		133,550
Operating Profit		27,700		34,550
Interest payable		<u>13,500</u>		<u>10,000</u>
Profit before taxation		14,200		24,550
Taxation		<u>2,200</u>		<u>1,850</u>
Profit for the year - retained		12,000		22,700
At the start of the year		<u>10,300</u>		<u>(12,400)</u>
At the end of the year		<u>22,300</u>		<u>10,300</u>

[Question 3 continues on the next page...

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Organilife Limited

Balance Sheets as at 31st October 2000 and 1999

	2000	£	1999	£
Fixed Assets				
Delivery Vehicles		130,000		90,000
Computer Systems		40,000		32,000
Office Equipment		10,000		12,000
		<u>180,000</u>		<u>134,000</u>
Current Assets				
Stock	6,500		4,000	
Trade Debtors	<u>71,200</u>		<u>50,500</u>	
	<u>77,700</u>		<u>54,500</u>	
Current Liabilities				
Trade Creditors	27,000		21,200	
Bank Overdraft	<u>43,400</u>		<u>12,000</u>	
	<u>70,400</u>		<u>33,200</u>	
Net Current Assets		7,300		21,300
Long Term Liabilities				
Three Year Term Loan		<u>(120,000)</u>		<u>(100,000)</u>
		<u>67,300</u>		<u>55,300</u>
Shareholders Funds				
Ordinary Shares of £1 each		45,000		45,000
Profit & Loss Account		<u>22,300</u>		<u>10,300</u>
		<u>67,300</u>		<u>55,300</u>

Required:

- a) Prepare a report for Rosemary analysing the company's position and financial performance over the last two years. Your report should include an appendix of ratios to support your analysis and conclusions.
- (26 marks)
- b) It can be said that Financial Statements and Accounts by themselves only provide part of the picture in terms of financial analysis. What do you understand by this and how might the picture be fully rendered.

(8 marks)

Total marks 34

[Question 4 follows overleaf...]

Question 4

Answer any **TWO** of the following:

- a) There are many 'users' of financial information including the persons or institutions that provide finance to business entities. One important source of financial information is the 'Annual Report'. In your view what useful information might such financiers glean from the various sections of the report?

(17 marks)

- b) In preparing financial statements there are rarely black and white rules to cover every circumstance or situation. Comment on the use of 'commercial judgement' in the preparation of financial statements. Your answer should include two brief examples of circumstances where commercial judgement may need to be called upon.

(17 marks)

- c) The structure and content of financial statements is determined and influenced by many factors. Outline the main determinants and comment on how these determinants have evolved.

(17 marks)

Total marks 34