

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

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SEMESTER I EXAMINATIONS 2000/01

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HIGHER DIPLOMA IN ARTS ADMINISTRATION

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ACCOUNTING

(AY801)

Professor N. Garrod  
Professor J.F. Collins  
Ms. B. Sweeney

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**Time allowed: Two hours**

**Candidates are required to attempt any TWO questions.**

**All questions carry equal marks**

### Question 1

The following list of balances was extracted from the books of Bill Snowy at 31 December 2000.

	£	£
Bank	50,000	
Creditors		60,000
Purchases	150,000	
Motor vehicles – cost	60,000	
Motor vehicles – aggregate depreciation 1/1/00		35,000
Buildings - cost	600,000	
Buildings – aggregate depreciation 1/1/00		100,000
Sales		350,000
Rent received		20,000
Wages and salaries	120,000	
Stock 1 January 2000	20,000	
Insurance	1,000	
Advertising	600	
Light and heat	1,200	
Telephone	500	
Bad debts	800	
Debtors	30,000	
Drawings	1,500	
Capital		<u>470,600</u>
	<u>1,035,600</u>	<u>1,035,600</u>

### **Additional information**

1. Stock at 31 December 2000 was valued at £40,000.
2. Depreciation is to be provided on fixed assets as follows

Motor vehicles	20% reducing balance
Buildings	2% straight line
3. A provision for bad debts of 5% of debtors is to be created.
4. The owner withdrew stock costing £500 for his own use. This has not been taken into account in the preparation of the trial balance.
5. The following bills were outstanding at 31 December 2000 and have not been included in the trial balance

Telephone	£80
ESB	£150

*Question 1 continues on the next page...*

6. Bill Snowy rents one of his buildings to another business for £18,000 per annum. Rent of £2000 has been received in advance for the period January and February 2001.

**Required**

- (a) Prepare the trading, profit and loss account of Bill Snowy for the year ended 31 December 2000 and a balance sheet as at that date. **(36 marks)**
- (b) Comment on the profitability of Bill Snowy. **(8 marks)**  
Note: You should support your answer with the calculation of relevant ratios.
- (c) Briefly explain what is meant by each of the following  
 Limited liability companies  
 Accruals concept  
 Depreciation **(6 marks)**

**Total marks: 50**

**Question 2**

Michael Tierney commenced business selling wood carvings on 1 January 2000 and invested £10,000 in the business on this date.

Michael buys the wood carvings from a craftsman in the area for £50 and displays them in a room in the national exhibition centre. This room is rented at a cost of £12,000 per annum payable yearly in advance on 1 January. He expects that sales of wood carvings to customers for the first four months of the year will be as follows.

<i>Month</i>	January	February	March	April
<i>Number of wood carvings</i>	50	80	100	100

Each carving will be sold for £80 each. Michael wishes to keep a stock of carvings at the end of each month equal to 50 % of the following months sales. Wood carvings are paid for 30% in the month of purchase and 70% in the month after purchase. All sales are for cash.

Michael expects to incur the following expenses in the first year of trading. Telephone and light and heat are paid for two months in arrears (i.e. bills for January and February are paid at the beginning of March). All other expenses are paid for as they arise.

Telephone	£50 per month
Light and heat	£30 per month
Stationary	£20 per month
Wages for part time assistant	£400 per month
Office furniture	£300 payable in January

***Question 2 continues on next page...***

### **Required**

- (a) Prepare a cash budget for Michael Tierney for the first three months of operations and a summary cash budget for the first quarter. (30 marks)  
NB All workings must be clearly shown.
- (b) Calculate the contribution per carving and the break even point in units and pounds for the first year of trading of this business. (8 marks)
- (c) Discuss the potential benefits for a business of preparing a cash budget. (12 marks)

**Total marks: 50**

### **Question 3**

The Bali Antique company imports antiques from Bali and sells them to customers in Galway. As a result of increased demand for these products, the company has decided to expand its business and wishes to raise an additional £300,000. Extracts from the financial statements of the company for the year ended 31 December are as follows:

Sales	£2,500,000
Net profit before interest deductions	£400,000
Interest payments	£40,000
Share capital	£1,000,000
Retained profits	£200,000
Long term bank loan 8%	£500,000

### **Required**

- (a) Outline the major sources of short-term and long-term finance available to a business. (15 marks)
- (b) Discuss the major factors which should be taken into account when deciding on the appropriate mix of long-term and short term sources of finance. (10 marks)
- (c) Comment on the gearing of this company supporting your answers with the calculation of relevant ratios. (15 marks)
- (d) Recalculate the gearing ratios used in part (c) but assuming that the company raises the additional finance by means of a long term loan at a rate of 10%. (10 marks)

**Total marks: 50**