

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

SEMESTER I EXAMINATIONS 1999/00

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 2 ½ marks.

You are given the following extract from the trial balance of Datron limited at 30 June 1999:

	Dr £	Cr £
Motor Vehicles at cost	48,000	
Motor Vehicles - aggregate depreciation		30,720
Bank	2,000	
Trade Debtors	16,780	
Provision for Bad debts		720
Bad debts	360	

Additional information:

- A van which cost £8,000 was sold for £3,000. The aggregate depreciation relating to that van on the date of sale was £3,904.
- Datron charges depreciation on motor vans 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.
- Bad debts of £180 are to be written off and the provision for bad debts is to be maintained at 3% of trade debtors.

Questions 1 to 5 below are based on the information given to you about Datron Ltd. above.

1. Profit or loss on the sale of the van should be:
 - a) Loss on sale of van £1,096
 - b) Loss on sale of van £904;
 - c) Loss on sale of van £5,000
 - d) Profit on sale of van £1,096
2. The balances on the motor vans account at cost and the motor vans aggregate depreciation after accounting for the sale of the van, but prior to charging depreciation for the year, should be:
 - a) Motor vans at cost £43,904 Aggregate Depreciation £26,816
 - b) Motor vans at cost £40,000; Aggregate Depreciation £26,624
 - c) Motor vans at cost £40,000; Aggregate Depreciation £26,816
 - d) Motor vans at cost £43,904 Aggregate Depreciation £26,624
3. The depreciation charge for the year should be
 - a) £3,456.00
 - b) £2,636.80
 - c) £8,000.00
 - d) £2,675.20

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

...Question 1 continued from previous page]

4. In the profit and loss account of Datron, for the year ended 30 June 1999, the bad debts expense and the increase/decrease in the provision for bad debts should be:
 - a) Bad debts expense £540; decrease in the provision for bad debts £232.80
 - b) Bad debts expense £180; increase in the provision for bad debts £232.80
 - c) Bad debts expense £180; increase in the provision for bad debts £216.60
 - d) Bad debts expense £540; decrease in the provision for bad debts £222.00
5. On the balance sheet of Datron at 30 June 1999 the Trade debtors balance, stated net of the provision for bad debts, should be:
 - a) £16,102.00
 - b) £15,752.80
 - c) £16,273.60
 - d) £16,156.60

You are given the following information about Datrax Ltd. for the year ended 31 March 1999:

	£
Sales	1,380,000
Cost of sales	750,000
Gross profit	<u>630,000</u>
Current Assets	
Stock	106,000
Debtors	84,600
Investments (classified as liquid resources)	52,500
Total current assets	<u>243,100</u>
Current liabilities	
Bank overdraft	15,850
Creditors	96,750
Total current liabilities	<u>112,600</u>
Long term liabilities	
Bank Loans	<u>117,000</u>

The multiple choice questions 6 to 9 are based on the information regarding Datrax Ltd above.

6. The acid test ratio of Datrax Ltd (rounded to two decimal places) is:
 - a) 2.51
 - b) 1.22
 - c) 2.16
 - d) 1.42
7. The stock turnover ratio of Datrax Ltd (rounded to two decimal places) at 31 March 1999 is:
 - a) 13.01 times
 - b) 0.14 times
 - c) 7.08 times
 - d) 0.17 times

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

...Question 1 continued from previous page]

8. The creditor days ratio of Datrax Ltd (rounded to two decimal places) at 31 March 1999 is:
- a) 56.05 days
 - b) 47.09 days
 - c) 25.59 days
 - d) 7.75 days
9. The net debt/net funds of Datrax Ltd. as defined by *FRS 1 Cash flow statements* at 31 March 1999 is:
- a) Net debt of £117,100
 - b) Net funds of £13,500
 - c) Net debt of £80,350
 - d) Net debt of £132,850
10. If a company has £3,000 on one month deposit at the bank at the start of the year and £8,000 on one month deposit at the end of the year, this should be shown in the cash flow statement as:
- a) Decrease in net debt/increase in net funds for the year
 - b) Cash inflow from management of liquid resources for the year
 - c) Increase in cash during the year.
 - d) Cash outflow to management of liquid resources for the year
11. A company has a profit before interest and tax of £10,000. The depreciation charge for the year was £900; Debtors increased by £760; Creditors decreased by £190 and stock decreased by £450. Assuming that these are the only items in the reconciliation from net profit from operations to net cash flow from operations, the correct figure for net cash flow from operations should be
- a) £10,400
 - b) £11,920
 - c) £10,780
 - d) £10,120
12. Which of the following is NOT a classification of cash flows required to be shown on the face of the cash flow statement:
- a) Returns on investments and servicing of finance
 - b) Equity dividends paid
 - c) Reconciliation of the change in net cash to the change in net debt.
 - d) Capital expenditure and financial investment
13. Which of the following statements is False
- a) The going concern assumption must be justified before it can be applied.
 - b) Where the matching concept conflicts with prudence, the matching concept will prevail.
 - c) The concept of prudence dictates that revenues and gains should only be recognised when there is reasonable certainty that the amounts will be realised.
 - d) The purpose of the concept of consistency is to promote the comparability of accounts from year to year.

(2 ½ marks each)
Total marks: 32.5

P.T.O.

Question 2

The profit and loss account of Carna Ltd for the year ended 31 March 1999 and the balance sheets as at 31 March 1998 and 1999 are set out below:

Carna Ltd Profit and Loss account for the year ended 31 March 1999

Sales	2,960
Cost of sales	<u>(1,130)</u>
Gross profit	1,830
Operating expenses	(918)
Depreciation and loss on the sale of the machine	<u>(570)</u>
Profit before interest and tax	342
Interest income	70
Interest expense	(47)
Taxation	<u>(190)</u>
Net profit	175
Dividends declared	<u>(85)</u>
Retained profit	<u>90</u>

Carna Ltd Balance sheets as at 31 March,

	<u>1998</u>	<u>1999</u>
Tangible fixed assets		
Land and buildings	1,000	1,500
Plant and machinery at cost (Note 1)	1,850	2,000
Plant and machinery, accumulated depreciation	<u>(540)</u>	<u>(860)</u>
	2,310	2,640
Current assets		
Stock	275	450
Debtors (Note 2)	100	225
Current asset investments (Note 3)	57	28
Cash	<u>160</u>	<u>190</u>
Total current assets	592	893
Current liabilities		
Trade creditors	324	230
Taxation	110	140
Dividends	<u>80</u>	<u>85</u>
Total current liabilities	514	455
Net current assets	78	438
Total assets less current liabilities	2,388	3,078
Creditors, due after more than 1 year		
Bank loan	<u>(100)</u>	<u>(300)</u>
	2,288	2,778
Capital and Reserves		
Share Capital	1,300	1,600
Share premium	200	300
Profit and loss account	<u>788</u>	<u>878</u>
	2,288	2,778

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

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Notes

- Note 1: During the year a machine which had cost £550 and had a net book value of £370 was sold for £300. There were no disposals of land and buildings and no depreciation is charged on land and buildings.
- Note 2: Included in Debtors at year end is interest receivable of £50. There was no interest receivable at the start of the year.
- Note 3: The company classifies current asset investments as liquid resources.

Required:

- a) Prepare the cash flow statement of Carna Ltd for the year ended 31 March 1999 in accordance with FRS 1 *Cash Flow Statements*.
(26 marks)
- b) Explain, with reference to your answer in part a), why the increase or decrease in cash of Carna Ltd for the year ended 31 March 1999 is not equal to the profit for that year.
(7.75 marks)
- (Total marks 33.75)

Question 3

Carraroe Ltd. is a progressive business which was set up 5 years ago. In the current year they introduced a new range of products which have been very successful and now account for 40% of the company's total sales. However, the bank manager has become increasingly concerned about the size of the company's overdraft, and with this in mind he has asked you to review the last two years' accounts.

Carraroe Ltd. Profit and loss accounts for the years ended 30 June

	1998 £	1999 £
Turnover	3,489	5,600
Cost of sales	(1,860)	(2,900)
Gross profit	1,629	2,700
Operating expenses	(806)	(918)
Depreciation	(332)	(625)
Profit before interest and tax	491	1,157
Interest payable	(146)	(312)
Profit before tax	345	845
Taxation	(150)	(314)
Retained profits	195	531

[Question 3 continues on the next page...

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Carraroe Ltd. Balance sheets as at 30 June

	1998	1999
Tangible fixed assets	2,250	4,110
Current Assets		
Stocks	600	1,205
Debtors	480	780
Cash at bank	100	-
	1,180	1,985
Creditors: amounts falling due within one year		
Bank overdraft	-	790
Trade creditors	350	810
Accruals	270	354
	620	1,954
Net current assets	560	31
Total assets less current liabilities	2,810	4,141
Financed by:		
Creditors: amounts falling due after more than one year		
Bank loan	900	1,700
Capital and reserves		
Called-up share capital	1,200	1,200
Profit and loss account	710	1,241
	2,810	4,141

Required:

- Prepare a report for the bank manager analysing the company's financial position and financial performance over the last two years. Your report should include an appendix of ratios covering profitability, liquidity, efficiency and gearing.
- Outline what additional information (not necessarily accounting information) you would like to study prior to issuing your report, and indicate potential sources of such information.

(26 marks)

(7.75 marks)

Total marks 33.75

Question 4

Answer any **TWO** of the following:

- Describe the purpose of, and the typical contents of a public company's annual report. Your answer should include a brief assessment of extent to which the various sections of the report fulfill the purpose for which the accounts are prepared.
- Describe the role of the Accountancy Profession in the regulation of financial reporting and explain the origins of this role.
- Describe the provisions of SSAP 2 *Disclosure of Accounting Policies*.

(16.87 marks each)

Total marks 33.75