

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

SEMESTER I EXAMINATIONS 1999/00

HIGHER DIPLOMA IN ARTS ADMINISTRATION

ACCOUNTING

(AY801)

Professor R. W. Scapens
Professor J. F. Collins
Ms. E. Curtis

Time allowed: TWO HOURS

Candidates are required to attempt any TWO questions,

All questions carry equal marks

Question 1

The following Trial Balance was extracted from the ledger of John Hearne at 31 March 1999:

	Dr	Cr
Trade Debtors	6,800	
Bad Debts	280	
Trade Creditors		7,900
Furniture and Fittings		
at cost	10,860	
aggregate depreciation		2,940
Motor Vehicles		
at cost	24,000	
aggregate depreciation		8,000
Purchases	62,000	
Sales		98,600
Stock at 1 April 1998	5,375	
Bank	650	
Capital at 1 April 1998		3,165
Bank loan		2,000
Insurance	580	
Electricity	900	
Rent and Rates	3,400	
Telephone	1,200	
Interest expense	360	
Wages and Salaries	6,200	
	<u>122,605</u>	<u>122,605</u>

Additional Information:

1. Stock at 31 March 1999 amounted to £7,850.
2. Further bad debts of £100 have been identified and should be written off. A provision for bad debts of 4% of outstanding trade debtors should be created.
3. Furniture and fittings are depreciated on a straight line basis over 10 years and motor vehicles are depreciated on a straight line basis over 6 years.
4. At 31 March 1999, rates have been paid up to 31 December 1998. The cost of rates for the year 1 January 1999 to 31 December 1999 is £1,600.
5. Wages of £750 need to be accrued and insurance of £180 has been paid for in advance at 31 March 1999.
6. During the year John Hearne withdrew £650 worth of stock for his own personal use.

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

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Required

- a) Prepare the trading profit and loss account of John Hearne for the year ended 31 March 1999 and the balance sheet as at that date. (35 marks)
- b) Explain the purpose of a depreciation charge and explain how a business should estimate the amount of the depreciation charge. (7 marks)
- c) Briefly explain the meaning of the following fundamental accounting concepts
- Accruals concept (also known as the matching principle)
 - Going concern concept
 - Consistency concept
 - Prudence concept

(8 marks)

Total marks: 50

Question 2

John Brady has decided to open an Art Gallery in Galway on 1 January 2000. He has obtained a bridging loan of £10,000 from the bank which will be received on 1 January 2000 and will be repaid on 30 March 2000 together with £175 interest. Galway County Enterprise Board have agreed to pay him an employment grant of £5,000 which he expects to receive in February 2000. The business will have two functions, firstly to host regular exhibitions by local artists and secondly he will have a print shop where he will stock good quality prints for people who do not wish to, or have not got the funds to invest in originals. He has rented a small premises in Cross Street.

John already has agreements with three local artists to display their work for one month each for the first three months of operation of his business. John will charge the artists a commission of 30% on every painting that he sells. As the paintings will be sold on 30 days credit, he expects to collect this commission 30 days after the sale of the paintings. Based on his knowledge of the market, and the standing of each artist, he has estimated that sales of paintings from the exhibitions will be as follows (before calculating the commission):

	£
January	20,000
February	15,000
March	35,000

[Question 2 continues on the next page...

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John will only sell only one type of print which will cost £25 and will be sold for £40. On 1 January John intends to buy a stock of 120 prints which will cost £3,000 and he intends to maintain his stock at a constant level of 120 prints. Prints are paid for 60 days after purchase.

Prints will sold for cash and John expects the number of prints sold in the first four months of the year to be as follows:

	Estimated number of prints to be sold
January	20
February	50
March	75
April	85

John has estimated that other monthly expenses of the business will be as follows:

Rent	£2,500
Rates	£50
Electricity	£100
Part time sales assistant	£400
Telephone & fax	£150
Stationery & Postage	£75

In addition the following items must be purchased in January:

Cash register	£600
Desk	£200
Chair	£60
Lighting	£800

Required

- Prepare a cash budget for John Brady's new business for each of the first three months of operation and in total for the first quarter.
(30 marks)
- Prepare the projected balance sheet for John Brady's new business as at 31 March 2000.
(10 marks)
- Briefly describe the principal benefits of the budgeting process to a business.
(10 marks)

Total marks: 50

P.T.O.

Question 3

You are given the following information regarding Carnmore Ltd:

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

	1998	1999
	£	£
Sales	3,540	3,600
Cost of sales	(2,040)	(2,250)
Gross profit	1,500	1,350
Operating expenses	(600)	(624)
Depreciation	(198)	(225)
Profit before interest and tax	702	501
Interest payable	-	(24)
Profit before tax	702	477
Taxation	(240)	(144)
Retained profits	462	333

Carnmore Ltd. Balance sheets as at 30 June

	1998	1999
Tangible fixed assets	2,106	2,271
Current Assets		
Stocks	444	708
Debtors	306	468
Cash at bank	96	12
	846	1,188
Creditors: amounts falling due within one year		
Bank overdraft	-	78
Trade creditors	180	228
Accruals	54	48
Taxation	240	144
	474	498
Net current assets	372	690
Total assets less current liabilities	2,478	2,961
Financed by:		
Creditors: amounts falling due after more than one year		
Bank loan	-	150
Capital and reserves		
Called-up share capital	1,500	1,500
Profit and loss account	978	1,311
	2,478	2,961

[Question 3 continues on the next page...]

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Required:

- a) Prepare a report 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 and efficiency.

(34 marks)

- b) Outline the limitations of ratio analysis.

(8 marks)

- c) Describe sources of information, other than accounting information, would you consider appropriate to study when conducting an analysis of a business and suggest where such information might be obtained.

(8 marks)

Total marks 50