Module Title: Introductory Finance and Accounting
Level: Four
Time Allowed: Two hours, plus 15 minutes reading time. Students must not commence answering the questions until the reading time has ended.

Instructions to students:
- Enter your student number not your name on all answer books.
- During the 15 minutes reading time, students are permitted to make notes on the examination paper but not the answer book. Students should begin answering the questions after the reading time has ended.
- **Section A** – This section contains one compulsory question.
- **Section B** – Answer one out of two questions.
- All questions are equally weighted. Where a question has more than one part, the division of marks is stated.
- Begin each question in a separate answer book; label each answer book clearly with the number of the question you are answering.
- Students are permitted to take two A4 sides of handwritten notes into the examination room. All notes should be attached to the answer book at the end of the examination.
- Use of a non-programmable calculator is permitted.
**Section A**
This section contains one compulsory question.

**Question 1**
Below is the trial balance of Hilda Collins, who has a small business in Northampton.

### Trial Balance as at 30th April 2015

<table>
<thead>
<tr>
<th>Description</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>687,507.00</td>
</tr>
<tr>
<td>Purchases</td>
<td>528,450.00</td>
</tr>
<tr>
<td>Drawings</td>
<td>18,000.00</td>
</tr>
<tr>
<td>Rent &amp; rates</td>
<td>21,750.00</td>
</tr>
<tr>
<td>Electricity</td>
<td>1,242.00</td>
</tr>
<tr>
<td>Insurance</td>
<td>1,129.50</td>
</tr>
<tr>
<td>Telephone</td>
<td>738.00</td>
</tr>
<tr>
<td>Stationery</td>
<td>375.00</td>
</tr>
<tr>
<td>Advertising</td>
<td>2,430.00</td>
</tr>
<tr>
<td>Wages</td>
<td>28,800.00</td>
</tr>
<tr>
<td>Bad debt</td>
<td>465.00</td>
</tr>
<tr>
<td>Debtors</td>
<td>10,672.50</td>
</tr>
<tr>
<td>Creditors</td>
<td>8,475.00</td>
</tr>
<tr>
<td>Cash</td>
<td>525.00</td>
</tr>
<tr>
<td>Bank</td>
<td>10,380.00</td>
</tr>
<tr>
<td>Stock (30th April 2014)</td>
<td>8,025.00</td>
</tr>
<tr>
<td>Vehicle</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Machinery</td>
<td>48,000.00</td>
</tr>
<tr>
<td>Equipment</td>
<td>18,000.00</td>
</tr>
<tr>
<td>Cash introduced</td>
<td>15,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>710,982.00</strong></td>
</tr>
</tbody>
</table>
Additional information:

- Stock at 30th April 2015 £8,475.00.
- Accruals at year end included advertising £187.50 and Telephone £75.00.
- Prepayments were made for insurance £79.50 and rates £1500.00.

Required

a. Produce a Trading, Profit & Loss Account for Hilda Collins for the year to 30th April 2015. (15 marks)

b. Prepare the Balance Sheet for the same period. (15 marks)

c. Hilda is concerned that some of the aged debtors at the year-end may not pay and has decided to make a provision for doubtful debt of 2% of these debtors.

i. Calculate the amount of the provision for doubtful debt based on the information in the Trial Balance above.

ii. How will Hilda treat this provision in the Trading, Profit & Loss Account?

iii. How will she then treat the provision in the Balance Sheet?

iv. If, in the following year, she feels it necessary to increase the Provision by £25 what will be the accounting treatment in the Trading, Profit & Loss Account in 2016?

v. What would also be required in the Balance Sheet in 2016? (10 marks)

d. Published financial information is prepared with the consideration of underlying accounting concepts which include prudence and consistency. Give an explanation of these concepts including practical examples of how they may be applied in the Profit & Loss Account and/or Balance Sheet. (10 marks)

(Total: 50 marks)

End of Section A
Section B continues overleaf
Section B

Answer one out of two questions.

Question 2

Dan Phillips is hoping to set up a new business on 1st April 2015 and, as his financial adviser, you have suggested that a six months cash budget should be drawn up to ensure the viability of the business. Dan provides you with the following information:

- He has £15,000 to invest in the business which he intends to deposit into the business bank account on 1st April.
- He will need various assets including a vehicle costing £12,000, equipment costing £18,000 and machinery costing £48,000 all of which will need to be purchased during the first few days in April.
- Dan estimates his purchases will be £42,000 for the first three months rising to £42,750 for the remaining months.
- The predicted sales have been made and are expected to be £57,000 for April, May and June rising to £58,500 for the next three months.
- General expenses are to be paid on the last day of each month and have been estimated at £397.50 per months.
- Insurance for the year will be paid by cheque on July 20th 2015 for £1,125.
- Annual rates are £18,000 paid quarterly with the first instalment due on May 1st 2015.
- Dan has negotiated a bank loan of £10,500 which he will receive in May 2015.
- Depreciation on the vehicle is 20% on cost and the machinery 10% on cost.

Required:

a. Prepare a cash budget for the relevant six months.  

   (30 marks)

b. Comment on your results.  

   (5 marks)

c. Discuss the importance of producing cash budgets with particular reference to new businesses.  

   (5 marks)

d. Why might the total sales and total purchases figures differ in the Profit & Loss account from those totals in the cash budget?  

   (10 marks)

(Total: 50 marks)
Question 3

Dan Phillips has purchased machinery costing £48,000 which has an expected useful life of 6 years when it could be sold for £3,000. He also has acquired equipment costing £18,000 with the same expected useful life but with no residual value at that time. Both these assets are to be depreciated using the straight-line method. A vehicle costing £12,000 was bought at the same time and the decision has been to depreciate this asset using the reduced balance method at 40% per annum.

a. From the information above calculate:

i. The annual depreciation for the machinery and equipment.

ii. The annual depreciation and the Net Book values for the vehicle for the next six years.

iii. If the profit before depreciating these assets, in year four, is £106,500, what would be the profit after depreciation? (22 marks)

b. Give an explanation of depreciation. (4 marks)

c. Explain the four acknowledged reasons for depreciation identifying examples of assets that depreciate in each way. (16 marks)

d. What is the accounting treatment for depreciation in:

i. The Profit & Loss Account? (4 marks)

ii. The Balance sheet? (4 marks)

e. How might depreciation comply with the ‘matching’ or ‘accruals’ concept? (4 marks)

(Total: 50 marks)