S5 Business, Accounting and Financial Studies Practice Paper: Depreciation, Year-end Adjustments, Break-even, Inventory Costing, Financial Ratios, Bank Reconciliation and Cash Budget

S5 | Business, Accounting and Financial Studies | Time: 75 minutes | Total: 100 marks | 24 questions

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Part A Depreciation of Non-current Assets (16 marks)

Answer all questions and show your working.

1. A machine costs $480,000, has an estimated residual value of $40,000 and a useful life of eight years. The firm uses the straight-line method. Find the annual depreciation. [4]

2. Using the same machine, find its net book value at the end of year 3. [4]

3. Another machine costs $300,000 and is depreciated at 20% of net book value each year. Find the depreciation for year 1 and year 2 and the net book value at the end of year 2. [4]

4. The machine (cost $300,000, accumulated depreciation $108000) is later sold for $180,000. Find its net book value at disposal and the profit or loss on disposal. [4]

Part B Year-end Adjustments and Receivables (16 marks)

Show your working for every answer.

5. At the year end trade receivables are $860,000 and the allowance for doubtful debts is set at 3%; the allowance already has a credit balance of $18,000. Find the required allowance and the charge for the year. [4]

6. A receivable of $12,000 is later confirmed irrecoverable and written off in full. Find the balance of the allowance after the write-off. [4]

7. On 1 April the firm paid a one-year insurance premium of $36,000 and debited the whole amount to insurance. The year ends on 31 December. Find the insurance expense for the year and the prepayment. [4]

8. At the year end the wages of the last week of December, $28,000, are unpaid and the December utility bill of $6,500 has not yet arrived. Find the total accrued expenses and state the effect on this year profit. [4]

Part C Cost Behaviour and Break-even (16 marks)

Show the calculation for each answer; give percentages to one decimal place.

9. A product sells for $120 per unit with variable cost of $72 per unit and total fixed costs of $384,000 a year. Find the unit contribution margin and the break-even quantity. [4]

10. Find the break-even sales revenue and the contribution margin ratio. [4]

11. If the firm targets a profit of $96,000 for the year, find the sales quantity required. [4]

12. Actual sales are 10,000 units. Find the margin of safety in units, in dollars and as a percentage. [4]

Part D Inventory Costing (Weighted Average) (16 marks)

Give answers to two decimal places where appropriate.

13. Opening inventory is 200 units at $50 each and 300 units are purchased during the period at $56 each. Using the weighted average method, find the total cost of goods available for sale, the total units and the weighted average unit cost. [4]

14. During the period 320 units are sold. Find the cost of goods sold. [4]

15. Find the quantity and value of the closing inventory. [4]

16. If the selling price is $85 per unit, find the sales revenue, gross profit and gross profit margin to one decimal place. [4]

Part E Financial Ratio Analysis (16 marks)

Show the working; give ratios to two decimal places where appropriate.

17. Current assets are $680,000 including inventory of $240,000; current liabilities are $340,000. Find the current ratio and the quick ratio. [4]

18. Cost of goods sold is $1,080,000 and average inventory is $216,000. Find the inventory turnover in times and the inventory turnover period in whole days. [4]

19. Sales this year are $1,800,000 and gross profit is $540,000. Find the gross profit margin; if next year sales rise by 10% while the margin holds, find next year gross profit. [4]

20. Total liabilities are $900,000 and total assets are $2,400,000. Find the debt ratio, total equity and the equity ratio. [4]

Part F Bank Reconciliation and Cash Budget (20 marks)

Show the working, state the currency and give interest to two decimal places.

21. The bank statement shows a credit balance of $86,400; there are unpresented cheques of $12,600 and deposits in transit of $9,800. Find the adjusted bank statement balance. [5]

22. The firm cash book shows $79,720; a note of $5,000 was collected by the bank but not yet recorded; bank charges are $120 and a customer cheque of $1,000 was returned unpaid. Find the adjusted cash book balance and say whether it agrees with the previous answer. [5]

23. Cash budget: opening cash is $45,000, expected receipts are $320,000 and payments are $352,000; the firm requires a minimum cash balance of $30,000. Find the closing cash and the amount to be borrowed. [5]

24. The loan carries interest at 8% a year and is taken for four months. Find the interest payable. [5]
