S6 Business, Accounting and Financial Studies Practice Paper: Limited Company Share Capital and Dividends, Bad Debts and Allowance for Doubtful Debts, Bank Reconciliation, Job and Absorption Costing, Financial Statement Ratio Analysis, Capital Investment Appraisal

S6 | Business, Accounting and Financial Studies | Time: 75 minutes | Total: 100 marks | 24 questions

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Part A - Limited Company Share Capital and Dividends (18 marks)

Show your working in calculations; in explanation questions give one concrete effect or limit.

1. A company issues 200,000 ordinary shares with a nominal value of $2 each at $3.5 per share. Find the share capital and the share premium. [5]

2. A company earns a profit after tax of $840,000 with 300,000 ordinary shares in issue. The directors declare a dividend of $0.8 per share. Find the total dividend and the increase in retained profits. [5]

3. A company has 400,000 10% preference shares of $1 each and 600,000 ordinary shares. The profit for the year is $520,000. Find the preference dividend and the profit available to ordinary shareholders. [4]

4. State the class of equity under which share premium and retained profits appear in the statement of financial position, and give one restriction on the use of each. [4]

Part B - Bad Debts and Allowance for Doubtful Debts (16 marks)

Write both debit and credit accounts in journal entries; show the computation of amounts.

5. Trade receivables at the start of the year were $250,000. Credit sales were $960,000, cash collected was $910,000 and bad debts of $8,000 were written off. Find the trade receivables at the year end. [4]

6. The allowance for doubtful debts is 4% of year-end receivables. The opening allowance was $9,000 and year-end receivables are $292,000. Find the required closing allowance and the increase or decrease to be charged for the year. [4]

7. Bad debts of $8,000 were written off during the year and the opening allowance was $9,000. Find the allowance balance after the write-off and state whether the write-off directly affects this year profit. [4]

8. A customer pays $3,000 that had been written off in an earlier year. Write the two journal entries required and state the effect on the allowance for doubtful debts. [4]

Part C - Bank Reconciliation (16 marks)

State whether each adjustment belongs to the cash book or to the bank statement.

9. The bank statement shows a balance of $21,900. Cheques issued but not yet presented total $4,200 and deposits not yet credited total $700. Find the adjusted bank statement balance. [4]

10. The cash book (bank column) shows $18,600. Bank charges of $200 have not yet been entered in the cash book. Find the adjusted cash book balance. [4]

11. The bank has credited a deposit of $3,000 to another customer account by mistake; the company books are correct. Explain the treatment in the reconciliation and whether the company needs a journal entry. [4]

12. Explain why unpresented cheques make the bank statement balance higher than the cash book balance. [4]

Part D - Job and Absorption Costing (18 marks)

Production overhead is absorbed on direct labour hours; list each cost element.

13. Job 108 uses direct materials of $24,000 and 400 direct labour hours at $95 per hour. Production overhead is absorbed at $60 per direct labour hour. Find the total production cost of the job. [4]

14. The job in the previous question produced 500 units, with selling and administrative expenses of $9,000 apportioned to it. Find the production cost per unit and the total cost per unit. [5]

15. A product has a variable cost of $45 per unit and total fixed costs of $70,000. Find the total cost per unit when output is 2,000 units and when it is 2,500 units, with fixed cost spread over output. [5]

16. Compare absorption costing and marginal costing in the valuation of inventory, and state which cost is excluded from the income statement under marginal costing. [4]

Part E - Financial Statement Ratio Analysis (16 marks)

Show the formula for each ratio; give percentages to the nearest whole number and turnover ratios to 2 decimal places.

17. Sales for the year were $1,200,000 and cost of sales was $720,000. Find the gross profit and the gross profit ratio. [4]

18. Using the same data with an operating profit of $180,000, find the operating profit ratio and state what the gap between it and the gross profit ratio represents. [4]

19. Current assets are $260,000 including inventory of $120,000; current liabilities are $130,000. Find the current ratio and the quick ratio to 2 decimal places. [4]

20. Operating profit is $180,000, capital employed (total assets less current liabilities) is $900,000, cost of sales is $720,000 and inventory is $120,000. Find the return on capital employed and the inventory turnover. [4]

Part F - Capital Investment Appraisal (16 marks)

Show cumulative cash inflows for payback; use the discount factors given for net present value.

21. Project A costs $500,000 and generates net cash inflows of $125,000 each year for 5 years. Find the payback period. [4]

22. Project B costs $600,000 with net cash inflows of 200,000, 180,000, 160,000 and 140,000 in the first four years. Find the payback period in years and months. [4]

23. Project C costs $220,000 and gives net cash inflows of $100,000 for 3 years. The discount factors are 0.909, 0.826 and 0.751. Find the total present value, the net present value and state whether the project should be accepted. [4]

24. State two weaknesses of the payback period method of investment appraisal. [4]
