

Государственный университет – Высшая школа экономики
Международный институт экономики и финансов

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РУКОВОДСТВО
для студентов
по курсу
**«Бухгалтерский учет
и финансы»**

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Данное руководство для студентов входит в серию учебных материалов Международного института экономики и финансов Государственного университета – Высшей школы экономики (МИЭФ ГУ-ВШЭ), подготовленных в рамках проекта Национального фонда подготовки кадров «Развитие учебной программы МИЭФ ГУ-ВШЭ международного уровня по направлению «Экономика».



Данное руководство может быть использовано студентами МИЭФ при изучении курса «Бухгалтерский учет и финансы». Оно включает в себя программу курса и другие учебно-методические материалы, необходимые студентам в ходе учебного процесса и при подготовке к экзаменам. Руководство подготовлено на английском языке, поскольку данный курс изучается в рамках внешней программы Лондонского университета и преподается в МИЭФ на английском языке.

Представленные материалы могут быть также использованы студентами и преподавателям остальных факультетов ГУ-ВШЭ и других экономических вузов.

МИЭФ ГУ-ВШЭ создан в 1997 году при академической поддержке Лондонской школы экономики и политических наук (LSE). МИЭФ реализует программу двух дипломов бакалавриата в области экономики: ГУ-ВШЭ и Внешней программы Лондонского университета.

Официальный сайт МИЭФ: www.hse.ru/icef

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Course description

“Elements of accounting and finance” is a two-semester course designed to prepare students for University of London (UL) examination.

The course develops background for understanding and reading companies’ financial reports and for assessing company’s financial position and making managerial decisions. The course covers basic concepts of modern financial reporting, essentials in UK standard of financial and managerial accounting. It provides basic knowledge in preparing, processing and interpreting the data about business transactions for different types of external as well as internal investors, management and other accounting information users. The course requires the knowledge in Micro- and Macroeconomics and Banking.

Course objectives

The course is focused on developing skills for preparing and analyzing companies’ financial statements and data for decision-making purposes. By the end of autumn semester students are expected to be able to apply a set of accounting concepts to read annual financial report of a corporation and financial ratios to assess its position. By the end of spring semester students are expected to apply managerial accounting analytical tools for internal control, pricing and developing different budgets for financial planning purposes as well as to get essential skills in capital budgeting techniques.

Forms of control

Current control includes: written home assignments, essays and their assessment, participation in classworks in solving exercises and case presentations. Essays are marked for the complexity of the content and ability to discuss different points of views as well as for the logic and the structure of presentation.

Intermediate control is based on a mid-term exam in the first semester, a first-term exam at the end of the first semester in UL format and a MOCK exam in March/April.

Final control is based on the final exam in May, which is set by the University of London.

Grade determination

Grades are calculated as weighted average with the following weights:

First term:

Written home assignments (WHA) – 10%

Class participation and team - working - 10%

Mid-term exam – 30%

First-term exam in January – 50%

The final grade is based on the final UL exam (60%) and the remaining 40% is given for performance evaluation during the course including 20% for weighted average for the first term and 20% for the spring MOCK exam.

Literature

Main texts

1. M.W.E. Glautier and B.Underdown. Accounting Theory and Practice. 6th edition. Pitman Publishing. – G&U
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999 - D&F

Supplementary texts

1. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Financial accounting. 2 edition. Prentice Hall. – AHSK
2. F.Wood, A.Sangster. Business Accounting. 8th edition. Financial Times. Pitman Publishing.1999.
3. A.H.McLaney. Accounting. ACCA. 3 edition. Longman.
4. D.Alexander, A.Britton. Financial Reporting. Chapman&Hil. 1999
5. C.Stickney. Financial Statement Analysis. A Strategic Perspective. 2 Edition. The Dryden Press.
6. Николаева О.Е., Шишкова Т.В. Управленческий учет. Москва:УРСС.1997
7. Ч.Т.Хорнгрен, Дж.Фостер. Бухгалтерский учет: управленческий аспект. Москва: «Финансы и статистика».1995
8. Т.Карлин, А.Макмин. Анализ финансовых отчетов. Москва: ИНФРА-М.1998
9. С.И.Пучкова, В.Д.Новодворский. Консолидированная отчетность. ФБК Пресс. 1999.
10. Л.А.Бернстайн. Анализ финансовой отчетности. Москва: «Финансы и статистика». 1996
11. Д.Шим, Д.Сигел. Основы коммерческого бюджетирования. ЗАО «Бизнес Микро». 2001

Course outline

Part I. Accounting Model of the Organization

Topic 1. Introduction to the Course. The Scope of Accounting

Accounting as an information system. Functions of accounting. Users of accounting information and their requirements: investors and investment analysts, creditors and lenders, managers, customers, employees, government, competitors and public. Types of accounting. Major differences between accounting and financial accounting, financial accounting versus management accounting. Accounting entities. Major types of organizations: sole proprietorship, partnership, limited companies (corporations). Types of organization and the scope of accounting information. Accounting leaders and institutions. The regulation of financial reporting: institutional framework and the role. The usefulness of accounting standards. Generally Accepted Accounting Principles and

accounting policies. The need for harmonization of financial accounting standards: what has been done in IAS and under European Directives.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 1-3
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 1-3

Topic 2. Basic Accounting Elements and Accounting Equation

Assets and their recognition criteria. Types of assets: current and noncurrent, liquid and illiquid, tangible and intangible. Claims on organization's assets. Liabilities and their recognition criteria. Types of liabilities. Owner's capital (equity) and its forms. Accounting equation: initial version. Revenues and expenses: the criteria and influence on owner's capital. Drawings (withdrawals) and owners investments. The expanded accounting equation. Types of accounts. Main T-accounts. Double entry bookkeeping techniques. Applying double-entry rule to expanded accounting equation. Accounting equation and basic statements. The balance sheet – the statement of financial position. Profit and loss statement – the statement of performance.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 4
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 4

Topic 3. The Framework for Conventional Accounting Model.

The role of accounting theory. The GAAP and fundamental accounting concepts. Entity concept and its requirements. Going - concern concept. Cost concept, money measurement concept and conventional accounting. Accrual concept versus cash accounting: advantages of accrual accounting, its limitations. Realization concept and revenue recognition criteria. Matching principle. Prudence concept and its constrains. The relevance and reliability of accounting information. Disclosure principle and the need for additional accounting information for limited company (corporation).

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 5-7
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 3

Topic 4. Building Accounting Cycle

Accounting cycle within the Organization. The accounting period. Accounting data processing. Balancing off the accounts. Closing entries. The trial balance and footing. The role of the trial balance. Accrual and matching concepts and the reasons for adjusting accounts and trial balance.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 8-9
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 5

Topic 5. Periodic measurement and identification of revenues and expenses

Accounting concepts and the need to adjust revenues and expense accounts. Adjusting revenues accounts for amounts owing. at the end of the period. The use of debtors' accounts. The types of debtors and the types of debts. The reasons for bad debts and accounting for bad debts. Provisions for doubtful debts. Adjusting accounts for prepayments. Adjusting accounts for accruals. The introduction to the concept of depreciation expense: the useful life, and the need for allocation of acquisition cost of fixed asset. The residual value of fixed asset and its depreciable value. Traditional method of depreciation - straight line. The accounting entries for depreciation.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 10
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 6 (pp.144-158), ch. 7

Topic 6. Preparing Balance Sheet and Profit and Loss Statement

Preparing Trading and P&L statements. Adjusting revenues for returns inwards and for discounts allowed. Gross trading profit. Net profit. Different layouts for P&L: horizontal and vertical formats. Preparing balance sheet. The role of the trial balance. The types of adjustments to the trial balance. Accounting errors. The suspense account. Different layouts for the balance sheet: horizontal and vertical formats. Net working capital. Capital employed.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 11
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Topic 7. Accounting and Reporting the Asset of Stock (Inventory)

The asset of stock and the need for closing stock adjustments. Perpetual and periodic stock (inventory) measurement. The need for stock (inventory) valuation. The type of the business and the stock flows. Stock (inventory) costing: first in - first out (FIFO); last in - first out (LIFO); average cost (AVC). The choice of stock flow assumptions and accounting policies. The influence of inventory costing over the reported profits. Inventory (illusory) profits. Lower of costs or market rule. Net realizable value of stocks.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 11
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Topic 8. Accounting and Reporting Non-current Assets (Fixed Assets)

Capital and revenue expenditures and their accounting treatment. Traditional method of depreciation for fixed assets: units of production (YOP). Accelerated depreciation: reducing (declining) balance (DB), sum of years digits (SYD). Factors affecting the choice of fixed assets depreciation methods. Fixed asset disposal. Disposal account. Recording changes in remaining useful life and residual value. Accounting for fixed assets and accounting policies. Fixed assets revaluation. Accounting treatment of leased assets. Operating leases and their influence on financial reports. Finance leases and their accounting problems. Principles of reporting financial investments in securities (bonds and shares).

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 12
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 6, pp.160-173

Topic 9. Accounting and Reporting Intangible Assets

Major types of intangibles (patents, licenses, trademarks and brands, software, goodwill) and their role in new economy. Internally created intangibles and acquired intangibles. The asset recognition criteria and accounting treatment of intangibles. The methods of writing off the intangibles. Amortization of intangible assets and the accounting entries. Types of R&D expenditures. The asset recognition criteria and accounting treatment of R&D expenditures. Development cost. Goodwill and brands reporting. The choice of accounting policies for intangibles and its effect upon the Balance sheet and P&L statement.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 12

2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 6, pp.160-173

Topic 10. Elements of Accounting and Financial Reporting in Limited Companies (Corporate Enterprises)

The sources of financing in a limited company / corporation. The types of loan capital (debt finance). The issue of corporate bonds (debentures). Accounting treatment of debt finance. Preference shares and ordinary shares. The issue of shares. Authorized capital, issued capital, called up capital, calls in arrears. Accounting entries for dividend payments. Cash dividend, stock dividend, share repurchase. Bonus shares (scrip dividend). The types of reserves of limited company. Revenue reserves and their role. General reserve. Capital reserve.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 13

2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 8

Topic 11. Basic Financial Statements of Limited Companies

The final accounts of limited companies. The structure of Appropriation account and its role. Profit and Loss Statement of corporate firm. The relationship between Appropriation account and Profit and loss statement. The structure of the balance sheet of limited company. Conceptual framework for regulation of financial reporting for corporations. Published financial statements, directors reports and accompanying notes. The disclosure principle and published financial reports

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 14

2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 8

Part II. Interpretation of Financial Reports

Topic 12. The Cash Flow Statement

The need for the Statement of cash flows. Accounting definition of cash and cash equivalents. Types of company's activities and cash flows: cash flow from operating, investing and financing activities. Net (gross) cash flow. Direct method of operating cash flow calculation. Indirect method of operating cash flow computation and working capital adjustments. Advantages of cash flow over net income for financial analysis.

The reconciliation of cash flows from operating activities to the profit. The cash flow statement formats: UK standard as compared to international standard.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 15
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 11

Topic 13. Understanding Groups of Companies' Financial Reports

The nature of the group. Parent undertaking (holding company). Subsidiary undertaking. Control by dominant influence over subsidiaries and the need for consolidating accounts. The principle of cancellation and its influence over the balance sheet of the group. The consideration and the accounting value for goodwill (the cost of control). The treatment of positive and negative goodwill on the consolidated balance sheet. The acquisition of subsidiary with reserves and the calculation of goodwill. The minority interest. The principles of consolidating the profit and loss account of the group.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 17-18
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 16

Topic 14. Analysis of Financial Performance

Horizontal and vertical analysis of financial statements. Ratio analysis. Types of financial ratios: liquidity, solvency, gearing, activity, profitability. Ratio analysis from lenders, owners and managers points of view. Du Pont earning power analysis. EPS computations. Advantages of ratio analysis. Limitations for ratio analysis: the type of industry, accounting policies. The sources of information for comparative ratio data.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 16
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 10

Topic 15. Alternative Approaches to Valuation in Financial Accounting. Capital Maintenance

The holes in conventional accounting model. Economic measures of income and capital and their role in accounting. Capital maintenance concept. Financial capital

maintenance versus operational capital maintenance. Elements of accounting for changing prices. Current purchasing power (CPP) accounting: major principles, advantages and disadvantages. Current market values accounting: major principles, advantages and disadvantages. Replacement cost accounting. Main differences between historical cost and replacement cost accounting.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 19-21
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. J.Arnold, T.Hope, A.Southworth, L.Kirkham. Ch. 12-14

Topic 16. Financial Reporting and Corporate Transparency

Types of corporate governance. The British model of corporate governance, its advantages and disadvantages. Different users of financial accounting information and disclosure requirements. Financial reporting to investors, employees and corporate social responsibility. Financial reporting and investor's rights.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 23
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Part III. Accounting and Managerial Decision-Making

Topic 17. Managerial Accounting: Costing Concepts and Costing Systems

The organizations, their objectives and structure. The management need for information. A perspective for cost analysis and classification. General cost classifications: manufacturing, nonmanufacturing, product and period costs. Costs for planning and control: direct and indirect, controllable and noncontrollable, differential costs. Types of costing systems. Job - order costing and the flow of costs. Measurement and application of manufacturing overheads. Process costing: the flow of costs, the problem of overheads. Advantages and disadvantages of traditional costing systems.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 25-26
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. Reader in Managerial Accounting.

Topic 18. Advanced Costing Systems: ABC

Design of activity-based costing (ABC). Assumptions of activity based costing. Tracing costs to activity centers. Application of overheads in ABC. Benefits and limitations of activity-based costing. Just-in-time inventories and its influence over costing systems.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 27
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Topic 19. Cost –Volume - Profit Relationship and Analysis

Cost behavior analysis. Variable cost, fixed cost and mixed cost. Methods of mixed costs analysis. The contribution margin. The contribution format of P&L. Operating leverage, its use in risk assessment. Break-even analysis. The margin of safety. The sales mix and break-even analysis. Target profit analysis. Limitations in CVP analysis.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 28
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. Reader in Managerial Accounting.

Topic 20. Variable Costing

Variable (marginal) costing compared to absorption (full) costing. Variable costing and stock valuation. Variable costing and activity-based costing. The benefits and limitations of variable costing. Variable costing controversy.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 29
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. Reader in Managerial Accounting.

Topic 21. Accounting Data and Pricing

Accounting treatment of pricing problems. “Cost plus” formula for pricing. Absorption pricing. Variable pricing. Mark - ups in different pricing methods. Target pricing and target costs.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 30
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. Reader in Managerial Accounting.

Topic 22. Profit Planning and Budgeting

Master budget and its structure. Steps in budgeting. Types of budgets. Cash budget and its role in planning and control. Cash budget and financing choices. The budgeted balance sheet and the budgeted P&L. Budgeting systems. The role of budgeting in planning and control. Using ratios in planning.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 30
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. Reader in Managerial Accounting.

Topic 23. Standard Cost and Variance Analysis

Standard costs and budgeted costs. Variance analysis for direct costs and overheads. Sales variance analysis. The influence of variances on income. Responsibility for variance analysis. Flexible budgets. Fixed cost and flexible budget. Activity based costing and flexible budgets.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 335-36
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. Reader in Managerial Accounting.

Topic 24. Basics of Capital Budgeting

Characteristics of investment project. The project physical life. Types of project's cash flows: initial outlay, cash flows over the life, terminal (residual) cash flows. The nature of relevant costs. Sunk costs. Differential costs. Traditional approaches to capital budgeting: accounting (simple) payback, accounting rate of return. Basics of discounted cash flow techniques. Net present value rule, its assumptions and limitations. IRR, its advantages and disadvantages. Discounted payback. Profitability index. Terminal value. Adding and dropping product lines. Make or buy decisions. Economic life of the project.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 31-32
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. Reader in Managerial Accounting.

Topic 25. Using Accounting Data in Performance Evaluation

Leadership style and the problem of control. Budget information and performance evaluation. Performance measurers. Segment reporting. Assigning costs to segments. Segment margin. The use of accounting data in strategic planning. Customer profitability analysis. Elements of responsibility accounting.

Main texts

1. M.W.E.Glautier and B.Underdown. Ch. 37-38
2. T.S.L. Fung, S.Dev. Elements of Accounting and Finance. 4th edition. University of London.1999

Supplementary texts

3. Reader in Managerial Accounting.

Sample problems for classwork and homework

Topic 2. Basic Accounting Elements and Accounting Equation

1. You are to complete the gaps:

	Assets	Liabilities	Capital
	£	£	£
(a)	12,500	1,800	?
(b)	28,000	4,900	?
(c)	16,800	?	12,500
(d)	19,600	?	16,450
(e)	?	6,300	19,200
(f)	?	11,650	39,750

2. Distinguish from the following list the items that are liabilities from those that are assets:

- | | |
|--------------------------|---------------------|
| a) Office machinery | d) Motor vehicles |
| b) Loan from C | e) We owe for goods |
| c) Fixtures and fittings | f) Bank balance |

3. Mr S sets up a new business. Before he actually sells anything, he has bought motor vehicle £2,000, premises £5,000, stock of goods £1,000. He did not pay in full for his stock of goods and still owes £400 in respect of them. He had borrowed £3,000 from D. After the events just described, and before trading starts, he has £100 cash in hand and £700 cash at bank. You are required to calculate the amount of his capital.

Topic 4. Building Accounting Model of the Firm

1. You are required to open the asset and liability and capital accounts and record the following transactions for June 19X8 in the records of C .
19X8

- June 1 Started business with £2,000 in cash.
 2 Paid £1,800 of the opening cash into a bank account for the business.
 5 Bought office furniture on credit from B for £120.
 8 Bought a motor van paying by cheque £950.
 12 Bought works machinery from E on credit £560.
 18 Returned faulty office furniture costing £62 to B Ltd.
 25 Sold some of the works machinery for £75 cash.
 26 Paid amount owing to B £58 by cheque.
 28 Took £100 out of the bank and put it in the cash till.
 30 J lent US £500 — giving us the money by cheque.

2. Enter the following items in the necessary debtors accounts only; do not write up other accounts. Then balance down each personal account at the end of the month 19X6

- May 1 Sales on credit to H £690, N £153, J £420.
 4 Sales on credit to L £418, H £66.
 10 Returns inwards from H £40, J £20.
 18 N paid us by cheque £153.
 20 J paid us £400 by cheque.
 24 H paid us £300 by cash.
 31 Sales on credit to L £203.

3. From the following trial balance of B that we extracted after one year's trading, prepare a trading and profit and loss account for the year ended 31 December 19X6. A balance sheet is not required.

Trial Balance as on 31 December 19X6

	Cr	Dr
	£	£
Sales		18,462
Purchases	14,629	
Salaries	2,150	
Motor expenses	520	
Rent	670	
Insurance	111	
General expenses	105	
Premises	1,500	
Motor vehicles	1,200	
Debtors	1,950	
Creditors		1,538
Cash at bank	1,654	
Cash in hand	40	
Drawings	895	
Capital		
	<u>25,424</u>	<u>25,424</u>

Stock at 31 December 19X6 was £2,548.

Topic 5. Periodic Measurement

1. What 'difference' would be caused in a trial balance by the following errors?

- £20 paid for repairs to premises was debited to premises
- discount received of £123 was credited as £231
- rent paid was credited to the rent account as well as to cash

2. Record the following in the ledger account:

April	1	A slacker invests £3,000 in a business
	3	Purchases £1,300 of stock for cash
	4	Purchases equipment for £400 cash
	5	Purchases £1,500 of stock on credit
	9	Pays rent of £250
	10	Pays fuel and electricity bill amounting to £120
	11	Pays general expenses of £100
	19	Sell goods for £2,000 cash. There cost of these sales was £1,200
	20	Sells goods for £1,900 on credit. The cost of these sales was £1,200
	21	Withdraws £500 in cash
	28	Pays £1,000 to creditors
	29	Receives £1,250 from debtors
	30	£25 is drawn from the bank and is held as a petty cash float

Required:

- a) Prepare a trial balance as at 30 April
- b) Prepare a trading and profit and loss account for the month and a balance sheet as at 30 April. Assume that the expenses paid all relate to the month of April and that there are no accruals.

3. The following trial balance was extracted from the accounts of a business as at 31 December 19X7.

	£	£
Sales		300,000
Sales Returns	5,000	
Carriage in	2,000	
Wages	50,000	
Premises	120,000	
Equipment	40,000	
Creditors		25,000
Rent & rates	5,000	
Heating & lighting	4,000	
Discount allowed	2,500	
Discount received		1,500
Purchases	160,000	
Purchases returns		5,000
Carriage out	2,000	
Stock-1 January	15,000	
Debtors	30,000	

Rent receivable		3,000
Administration expenses	8,000	
Insurance	1,500	
Cash	9,500	
Capital		140,000
Drawings	<u>20,000</u>	
	<u>£474,500</u>	<u>£474,500</u>

At the year end the following additional information is available:

- 1) £500 of administration expenses remain unpaid
- 2) £300 of insurance relates to the following year
- 3) Bad Debts of £500 are to be written off
- 4) £500 of rent is still owing to the business
- 5) £200 of wages are outstanding, relating to overtime worked in December
- 6) Equipment is to be depreciated by £8,000
- 7) Closing stock £20,000

Required:

- a) Prepare a trading and profit and loss account for the year ended 31 December 19X7, and a balance sheet as at 31 December 19X7.
- b) Explain which accounting concepts affect the adjustment 2.

Topic 6. Preparing the Balance Sheet and the Profit and Loss Statement

1. Mary has been in business for a few years. The balance sheet of the business at 31 December 19X8 was as follows:

Balance sheet as at 31 December 19X8

Fixed assets			Capital	
	£			£
Freehold premises	25,000		At 31 December 19X8	34,000
Plant	12,000			
			Long term liabilities	
			Loan from bank	20,000
Current assets				
Stock in trade	11,000			
Trade debtors	10,000		Current liabilities	
Cash at bank	5,000		Trade creditors	12,000
Cash in hand	<u>3,000</u>			
	<u>£66,000</u>			<u>£66,000</u>

During the year to 31 December 19X9 the following total transactions occurred:

- 1) Mary withdrew a total of £10,000 cash
- 2) Stock in trade was bought, all on credit, for £34,000

- 3) Sales were made totaling £60,000 of stock in trade which had cost £37,000. Of the sales £51,000 were on credit and £9,000 for cash (i.e. notes and coins)
- 4) A total of £16,000 was drawn from the bank in cash to augment the cash in hand
- 5) Electricity for the year paid by cheque totaled £2,000
- 6) Rates for the year paid by cheque totaled £1,000
- 7) Wages for the year all paid in cash totaled £10,000
- 8) Sundry expenses all paid in cash totaled £2,000
- 9) Trade creditors were paid a total of £36,000 all in cheque
- 10) Trade debtors paid a total of £54,000 all in cheque
- 11) The bank charged interest on the loan amounting to £3,000 for the year. This was deducted from the bank balance.

Required:

- a) prepare new trial balance
- b) prepare Profit and Loss statement in horizontal layout
- c) prepare Balance sheet in vertical layout

2. The firm V S maintains just one trade debtors' account to which are debited all credit sales. The business keeps a copy of each credit sales invoice on a file until the payment has been received. In this wake a check can be kept on the make-up of the balance on the trade debtors' account. VS started trading on 1 January 19X3.

The following relates to VS during its first five years of trading:

Year ended 31 December	Total credit sales	Total cash received	Bad debts written off arising from credit sales in:	
			current year	previous year
	£	£	£	£
19X3	42,100	38,300	200	—
19X4	48,800	47,900	250	150
19X5	50,500	49,700	200	100
19X6	44,300	44,400	200	200
19X7	47,700	47,200	100	200

VS created a provision for doubtful debts of 5% of the trade debtors balance carried down to each year end. £100 of the 19X7 cash receipts related to a debt previously written off.

Required: Draw up relevant accounts

Topic 7. Accounting and Reporting Stocks

1. The firm carries one item of stock which has the following details:

Balance at 1 November	20 units @ £40
Purchased 5 November	16 units @ £50
Purchased 9 November	20 units @ £60
Purchased 23 November	24 units @ £64

During November 42 units were sold. The business sold 18 units on 7 November and 24 units on 14 November. The business employs the continuous method of stock recording.

Required: Calculate the cost of sales for November and the value of closing stock based on each of the three valuation methods discussed above

2. An evaluation of a physical stock count on 30 April, 19X2 in respect of the financial year ending on that date at C has produced a figure of £187,033.

The firm's book-keeper has approached you, as the accountant, for assistance in dealing with the following matters to enable him to arrive at a final figure of closing stock for inclusion in the annual accounts:

1) 320 components included at their original cost of £11 each can now be bought in for only £6 each due to over production by the manufacturer. This drop in price is expected only to be only temporary and the purchase price is expected to exceed its original figure within 12 months. Cranfleet Commodities intend to continue selling the existing stock at the present price of £15 each.

2) It has been discovered that certain items which had cost £5,657 have been damaged. It will cost £804 to repair them after which they can be sold for £6,321.

3) On one stock sheet a sub-total of £9,105 has been carried forward as £1,095.

4) 480 units which cost £1.50 each have been extended at £15.00 each.

5) The firm has set goods with a selling price of £1,500 (being cost plus 25%) to a customer on a sale or return basis. At 30 April 19X2, the customer had not signified acceptance, but the goods have not been returned, and consequently had not been included in the physical stock count.

6) Included in stock were goods bought on credit for £4,679 from Byfleet Enterprises. At 30 April 192, Cranfleet Commodities had not paid this account.

7) Byfleet Enterprises had also sent some free samples (for advertising purposes only). These have been included in stock at their catalogue price of £152.

Required: Taking account of such of the above facts as are relevant, calculate a closing stock figure for inclusion in the 19X2 annual accounts of C, giving reasons for the action you have taken in each individual case.

Topic 8. Foundations of Accounting for Fixed Assets

1. A business purchases a micro-computer for £4,400 on 1 January. It has an estimated useful life of four years and a residual value of £275. The business has its accounting year end of 31 December.

Required:

- Calculate the annual depreciation charge using the straight line method.
- Calculate the annual depreciation charge using the reducing balance method.
- Show the relevant balance sheet extracts for Year 3 under each depreciation method.

2. At the beginning of the financial year commencing on 1 April 19X5, a company had a balance on plant account of £372,00 and on provision for depreciation plant account of £205,400.

The company's policy is to provide depreciation using the reducing balance method applied to the fixed assets held at the end of the financial year at the rate of 20 % per annum.

On 1 September 19X5 the company sold for £13,700 some plant which it had acquired on 31 October 19X1 at a cost of £35,000. Additionally, installation costs totaled £4,000. During 19X3 major repairs costing £6,300 had been carried out on this plant and, in order to increase the capacity of the plant, a new motor had been fitted in December 19X3 at a cost of £4,400. A further overhaul costing £2,700 had been carried out during 19X4.

The company acquired a new replacement plant on 30 November 19X5 at a cost of £96,000, inclusive of installation charges of £7,000.

Calculate:

- a) the balance of plant at cost at 31 March 19X6
- b) the provision for depreciation of plant at 31 March 19X6
- c) the profit or loss on disposal of the plant

3. Compute the annual depreciation expense each year for an asset with a cost of \$1,200, salvage value of \$200, and a useful life of four years under each of the following methods:

- 1) Straight-line
- 2) Sum-of-the-years digits
- 3) Double-declining balance

Topic 10. Elements of Accounting and Financial Reporting in Limited Companies (Corporate Enterprises)

1. L Ltd. had 1,000,000 authorized shares of \$10 par value common stock, of which 400,000 shares were issued and outstanding. The stockholders' equity accounts at December 31, 2004, had the following credit balances:

Common stock	\$4,000,000
Additional paid in capital	840,000
Retained earnings	3,800,000
Accumulated other comprehensive income	120,000

Transactions during 2005 and other information relating to the stockholders' equity accounts were as follows:

- 1) On January 8, 2005, L Ltd issued 30,000 shares of \$100 par, 7% cumulative preferred stock at \$105 per share. L Ltd had 30,000 authorized shares of preferred stock.
- 2) On March 1, 2005, L Ltd reacquired 10,000 shares of its common stock at a price of \$12 per share. L Ltd uses the cost method of accounting for treasury stock.
- 3) On April 8, 2005, L Ltd issued 50,000 shares of previously unissued common stock for \$600,000.
- 4) On November 10, 2005, L Ltd sold 4,000 shares of treasury stock for \$10 per share.
- e. Net income for the year ended December 31, 2005, was \$748,000.
- 5) The company experienced a holding loss of \$45,000 net of taxes on its available-for-sale securities during 2005.

6) On December 31, 2005, the board of directors declared the yearly cash dividend on the preferred stock, payable on January 15, 2006, to stockholders of record as of December 31, 2005. The board of directors also declared a cash dividend of \$0.20 per share on the common stock, payable on January 15, 2006, to stockholders of record as of December 31, 2005.

Required:

- a) Prepare a statement of changes in stockholders' equity for the year ended December 31, 2005, in good form.
- b) Prepare the stockholders' equity section of the balance sheet at December 31, 2005, in good form.

2. P plc reports a net profit for the year ended 31 March 19X3 of £185,000. Corporation tax on these profits is estimated at £68,000. It has been decided to transfer £18,000 to a general reserve and £21,000 to a fixed asset replacement reserve. Unappropriated profits brought forward were £142,000.

P plc has 300,000 10% £1 Preference Shares and 400,000 £1 Ordinary Shares in issue. An interim dividend of 5% was paid to both preference and ordinary shareholders. It is proposed to pay a final dividend to both classes of shareholders totaling £21,000 between them.

Required: Show the profit and loss appropriation account for the year ended 31 March 19X3.

3. The balance sheet of C Ltd is as follows:

Assets	£
Sundry net assets	<u>£1,200,000</u>
Share capital	
£1 ordinary shares fully paid	400,000
Reserves	
General reserve	500,000
Profit and Loss Account (unappropriated profit)	<u>300,000</u>
	<u>£1,200,000</u>

The directors decide to make a 1 for 5 bonus issue. This will be followed by 1 for 3 rights issue. Rights shares will be offered at a price of £1.60 per share.

Required: Show the revised balance sheet of C Ltd after both share issues have taken place.

Topic 12. Cash Flow Statement

1. The company balance sheets as of December 31 19x8, 19x7 and other financial reports read as follows:

	19x8 £000	19x7 £000
Fixed assets		
Plant and equipment	80,000	60,000
Accumulated depreciation	8,000	4,000
Long term investments	2,000	5,000
Current assets		
Stocks	8,000	10,000
Debtors	7,000	5,500
Prepaid expenses	600	500
Cash at bank and in hand	900	3,000
	16,500	19,000
Creditors: amounts falling due within 1 year		
Trade creditors	5,000	8,000
Accrued liabilities	<u>1,000</u>	-
	<u>6,000</u>	<u>8,000</u>
Net current assets	10,500	11,000
Total assets less current liabilities	84,500	72,000
<i>Financed by:</i>		
Creditors: amounts due after more than 1 year		
Debenture loans	24,000	10,000
Capital and reserves		
Called up share capital (ordinary shares)	20,000	25,000
P&L account	<u>40,500</u>	<u>37,000</u>
	84,500	72,000

P&L Statement for the year ended December 31, 19x8 (£000)

Turnover		70,000
Cost of Goods sold		<u>40,000</u>
Gross profit		30,000
Operating expenses:		
Selling	9,000	
Administrative	10,500	
Depreciation expense	4,000	
Total operating expenses		<u>23,500</u>
Net income		6,500

Dividends paid in 19x8 amount to 3,000 (£000)

Required:

- a) Prepare Cash flow statement for the year 19x8
- b) Explain the change in company's cash position
- c) Give examples how cash flow statement could be used in assessing financial performance of the company

2. The following balance sheet is for R Co. as of December 31, 2005:

R Co. Balance Sheet December 31, 2005 (amounts in thousands)

Assets		Liabilities and Equity	
Cash	\$ 68.0	Accounts payable	\$ 63.0
Accounts receivable	340.0	Wages payable	13.0
Inventories	75.0	Interest payable	3.0
Prepaid rent	32.0	Taxes payable	6.0
<i>Total current assets</i>	\$515.0	Other accrued liabilities	5.0
		<i>Total current liabilities</i>	\$ 90.0
Buildings & machinery	\$100.0	Senior debt	\$100.0
Accumulated depreciation	(25.0)	Subordinated debt	30.0
Buildings & machinery, net	\$ 75.0	<i>Total noncurrent liabilities</i>	\$130.0
Land	25.0	Common stock	\$ 15.0
<i>Total noncurrent assets</i>	\$100.0	APIC	115.0
<i>Total assets</i>	\$615.0	Retained earnings	265.0
		<i>Shareholders' equity</i>	\$395.0
		<i>Total liabilities & shareholders' equity</i>	\$615.0

The following information pertains to 2006 (all amounts are in thousands):

- 1) Sales were \$3,000, all on account.
- 2) Collections on accounts receivable were \$3,100.
- 3) A physical count of inventory found \$95 on hand at December 31, 2006.
- 4) On January 1, 2006, R bought a building for \$50 cash.
- 5) On January 1, 2006, R sold machinery for \$1.5 that cost \$10 and had accumulated depreciation as of January 1, 2006, of \$8.
- 6) R calculates depreciation expense using the straight-line method and an asset life of 10 years for buildings and machinery.
- 7) The senior debt has an interest rate of 6%.
- 8) The subordinated debt has an interest rate of 8%.
- 9) Dividends paid totaled \$14.
- 10) Wages payable at the end of the year were \$17.
- 11) Wages expense was \$57.
- 12) Cash payments for miscellaneous expenses totaled \$50. These payments are in addition to any miscellaneous expenses derived from prepaids or liability accounts.
- 13) Interest paid by R was \$7.
- 14) Purchases were \$2,820, all on account.
- 15) Payments on accounts payable were \$2,700.
- 16) The balance of prepaid rent at December 31, 2003, was \$30.
- 17) Additions to prepaid rent totaled \$25.
- 18) The beginning balance of other accrued liabilities was paid off in cash.
- 19) Other accrued liabilities at the end of the year, all relating to miscellaneous expenses, amounted to \$9.
- 20) R's tax expense for 2006 was \$12.
- 21) Unpaid taxes at December 31, 2006, were \$7.

Required:

- a) In a set of T-accounts, make all entries required
- b) Prepare a balance sheet for December 31, 2006.
- c) Prepare an income statement for the year ended December 31, 2006.
- d) Prepare a statement of cash flows, using the indirect method, for the year ended December 31, 2006.

Topic 14. Analysis of Financial Performance of the Company

1. For a number of years Smith has been employed as the works' manager of a company which manufactures cardboard cartons. He has now decided to leave the company and to set up a similar business of his own on 1 January 19X6 but, before taking this step he wants to see what his financial results are likely to be for the his first year of operations. In order to do this, he has obtained certain 'average industry' ratios from his trade association, (CCMA), which he wants to use as his norm for predicting the first year's results.

At this stage he consults you, asks for your professional assistance and supplies the following information.

	CCMA statistics 19X4 (based on year end-figures)
Sales/Net assets employed	2.8 times
Gross profit/Sales	28.0%
Net profit/Sales	10.0%
Fixed assets/Working capital	1.5:1
Current assets/Current liabilities	2.25:1
Debtors collection period	36.5 days
Creditors payment period	58.4 days

He informs you that he is able to contribute £40,000 as capital and has been promised a long term loan of £6,000 from a relative.

Initially, he intends to acquire a stock of materials at cost of £20,000 but his (simple) average stock for the first year will be £18,500. Purchases of materials for the year, excluding the initial purchase of stock, £20,000, will be £97,800. All purchases and sales will be on credit.

Sundry accruals at 31 December 19X6 are estimated at £350 and bank and cash balances at £5,000.

He proposes to withdraw £10,000 during the year for living expenses.

Required: Prepare, in as much detail as can be elicited from the information supplied, a forecast trading and profit and loss account for Martin Smith's proposed business for the year ended 31 December 19X6, and a forecast balance sheet at the date.

2. Mr. A was considering the purchase of one of the following businesses. However, he had only been provided with limited information about the businesses, as follows:

Information	Business X	Business Y
Cost of goods sold	£400,000	£600,000
Administrative expenses	£50,000	£60,000
Average stock at cost	£40,000	£50,000
Working capital as at 31 December 19X9	£90,000	£250,000
Selling and distribution expenses	£15,000	£35,000
Proprietors' capital at 1 January 19X9	£200,000	£350,000
Gross profit percentage mark-up on cost	20	25

Additional information:

- 1) Average stock had been calculated by using the years' opening and closing stocks. Subsequently it was discovered that Business Y had overvalued its stock on 31 December 19X9 by £10,000.
- 2) Business X's administrative expenses included a payment for rent of £15,000 which covered a three-year period to 31 December 19X1.
- 3) A sum of £2,500 was included in the administrative expenses of business Y in respect of a holiday taken by the owner and his family.
- 4) Cash drawings for the year ended 31 December 19X9 were:

	£
Business X	20,000
Business Y	25,000

- 5) The owners of the business had stipulated the following prices for their businesses:

	£
Business X	190,000
Business Y	400,000

Required:

- a) Based on the information available prepare comparative trading and profit and loss accounts for the year ended 31 December 19X9.
- b) Using the information provided and the accounting statements prepared in (a), calculate relevant accounting ratios in order to give Frampton a basis for assessing performances of the two businesses. Comment on the results.
- c) What additional information is needed in order to assess more accurately
 - i. the liquidity of the business
 - ii. the future prospects of the business?

Topic 17. Managerial Accounting: Costing Concepts and Costing Systems

1. Creative Advertising (CA) operates a boutique agency specializing in developing television advertisements for consumer products. The following information is provided for the year 19X5:

- 1) CA's revenues are 15% of the amounts television stations charge companies for running advertisements developed by CA. (That is, if a television station charges a company \$10,000 to run an advertisement, CA will be paid \$1,500. Thus, the total cost to the company of the advertisement is \$11,500.) In 19X5, these companies were charged \$10,000,000 for CA-developed advertisements.

- 2) CA has three partners (paid \$150,000 each in salary and benefits in 19X5) and three support staff (paid \$50,000 each in salary and benefits in 19X5),
- 3) Rent costs for CA's office in a prime location were \$180,000 in 19X5.
- 4) Other operating costs of CA in 19X5 were \$227,050.

Required:

- a) Prepare CA's income statement for 19X5.
- b) Name one difference between CA's income statement and that of
 - i. a merchandising-sector company
 - ii. a manufacturing-sector company.

2. Compute cost of goods manufactured and cost of goods sold from the following account balances relating to 19X5 (in thousands):

Property tax on plant building	\$ 3,000
Marketing, distribution, and customer-service costs	37,000
Finished goods inventory, January 1, 19X5	27,000
Plant utilities	17,000
Work in process inventory, December 31, 19X5	26,000
Depreciation of plant building	9,000
General and administrative costs (nonplant)	43,000
Direct materials used	87,000
Finished goods inventory, December 31, 19X5	34,000
Depreciation of plant equipment	11,000
Plant repairs and maintenance	16,000
Work in process inventory, January 1, 19X5	20,000
Direct manufacturing labor	34,000
Indirect manufacturing labor	23,000
Indirect materials used	11,000
Miscellaneous plant overhead	4,000

Topic 19. Cost –Volume - Profit Relationship and Analysis

1. Knitwear Inc. is choosing among three countries as the sole site for manufacturing its new sweater — Singapore, Thailand, and the United States. All sweaters are to be sold to retail outlets in the United States at \$32 per unit. These retail outlets add their own markup when selling to final customers. The three countries differ in their fixed costs and variable costs per sweater.

	Annual Fixed Costs	Variable Manufacturing Costs per Sweater	Variable Marketing and Distribution Costs per Sweater
Singapore	6.55 million	8.00	11.00
Thailand	4.55 million	5.50	11.50
United States	12.05 million	13.00	9.00

Required:

- a) Compute the breakeven point of Knitwear Inc. in both (a) units sold and (b) sales dollars for each of the three countries considered for manufacturing the sweaters.

b) If Knitwear Inc. sells 800,000 sweaters in 19_4, what is the budgeted operating income for each of the three countries considered for manufacturing the sweaters? Comment on the results.

2. Beverage Products is currently negotiating with Consumer Impact, its prestige advertising agency. Consumer Impact (CI) will design and develop a new set of five advertisements for Diet Super Cola. CI has traditionally been paid a 15% commission on the amount that Beverage Products pays television stations to run its advertisements. In its recent campaign, Beverage Products paid television stations \$5,000,000 to run Diet Super Cola advertisements over a three-month period. As a result, CI was paid \$750,000 ($\$5,000,000 \times 0.15$) for its advertising work. Thus, the total cost of advertising to Beverage Products is \$5,750,000.

The new marketing director of Beverage Products argues that the 15% commission is much too high and asks CI for a lower percentage. CI suggests an alternative compensation plan of a \$400,000 fixed payment plus a 5% commission on television advertising payments.

Required:

a) Graph the advertising agency cost of Beverage Products as a function of television advertising dollars for Diet Super Cola for:

- i. the traditional 15% commission cost structure
- ii. the \$400,000 plus 5% commission cost structure

Comment on the graphs.

b) What level of television advertising dollars results in Beverage Products paying CI the same amount under the (a) and (b) alternatives in requirement 1?

c) Under the 15% commission plan, what amount does Beverage Products pay CI if television advertising payments for Diet Super Cola are:

- i. \$1,000,000
- ii. \$10,000,000

d) What rationale could exist for the 15% commission plan if it costs CI no more to develop the advertisements that are repeated many more times in (b) than in (a)?

Topic 20. Variable Costing

1. (CMA) Osawa Inc. planned and actually manufactured 200,000 units of its single product in 19_5, its first year of operation. Variable manufacturing costs were \$20 per unit produced. Variable marketing and administrative costs were \$10 per unit sold. Planned and actual fixed manufacturing costs were \$600,000. Planned and actual marketing and administrative costs totaled \$400,000 in 19_5. Osawa sold 120,000 units of product in 19_5 at a selling price of \$40 per unit.

Required:

a) Osawa's 19_5 operating income using absorption costing is:

- (a) \$440,000, (b) \$200,000, (c) \$600,000, (d) \$840,000, (e) none of these.

b) Osawa's 19_5 operating income using variable costing is:

- (a) \$800,000, (b) \$440,000, (c) \$200,000, (d) \$600,000, (e) none of these.

2. The Mavis Company uses an absorption-costing system based on standard costs. Total variable manufacturing costs, including direct materials costs, were \$3 per unit; the standard production rate was 10 units per machine-hour. Total budgeted and actual fixed manufacturing overhead costs were \$420,000. Fixed manufacturing overhead was allocated at \$7 per machine-hour (\$420,000 ÷ 60,000 machine-hours of denominator level). Selling price is \$5 per unit. Variable marketing and administrative costs, which are driven by units sold, were \$1 per unit. Fixed marketing and administrative costs were \$120,000. Beginning inventory in 19₅ was 30,000 units; ending inventory was 40,000 units. Sales in 19X5 were 540,000 units. The same standard unit costs persisted throughout 19X4 and 19X5. For simplicity, assume that there were no price, spending, or efficiency variances.

Required:

- Prepare an income statement for 19₅ assuming that all underallocated or overallocated overhead is written off directly at year-end as an adjustment to Cost of Goods Sold.
- The president has heard about variable costing. She asks you to recast the 19₅ statement as it would appear under variable costing.
- Explain the difference in operating income as calculated in requirements 1 and 2.
- Graph how fixed manufacturing overhead is accounted for under absorption costing. That is, there will be two lines—one for the budgeted fixed overhead (which is equal to the actual fixed manufacturing overhead in this case) and one for the fixed overhead allocated. Show how the overallocated or underallocated manufacturing overhead might be indicated on the graph.
- Critics have claimed that a widely used accounting system has led to undesirable buildups of inventory levels, (a) Is variable costing or absorption costing more likely to lead to such buildups? Why? (b) What can be done to counteract undesirable inventory buildups?

Topic 21. Accounting Data and Pricing

1. Stardom Inc. cans peaches for sale to food distributors. All costs are classified as either manufacturing or marketing. Stardom prepares monthly budgets. Its March 19X6 budgeted absorption-costing income statement follows:

Revenues (1,000 crates at \$100 a crate)	\$100,000	100%
Cost of goods sold	<u>60,000</u>	<u>60</u>
Gross margin	40,000	40
Marketing costs	<u>30,000</u>	<u>30</u>
Operating income	<u>\$ 10,000</u>	<u>10%</u>

Normal markup percentage:

$$\$40,000 \div \$60,000 = 66.7\% \text{ of absorption cost}$$

Monthly costs are classified as fixed or variable (with respect to the cans produced! manufacturing costs and with respect to the cans sold for marketing costs):

	Fixed	Variable
Manufacturing	\$20,000	\$40,000
Marketing	16,000	14,000

Stardom has the capacity to can 1,500 crates per month. The relevant range in which monthly fixed manufacturing costs will be "fixed" is from 500 crates to 1,500 crates per month.

Required:

- a) Recast the income statement in a variable-costing (contribution) format. Indicate the normal markup percentage based on total variable costs.
- b) Assume that a new customer approaches Stardom to buy 200 crates at \$55 per crate. The customer does not require additional marketing effort. Additional manufacturing costs of \$2,000 (for special packaging) will be required. Stardom believes that this is a one-time-only special order, because the customer is discontinuing business in six weeks' time. Stardom is reluctant to accept this 200-crate special order because the \$55 per-crate price is below the \$60 per-crate absorption cost. Do you agree with this reasoning? Explain.
- c) Assume that the new customer decides to remain in business. How would this longevity affect your willingness to accept the \$55 per-crate offer? Explain.

2. Cost-plus target return on investment pricing. John Beck is the managing partner of a partnership that has just finished building a 60-room motel. Beck estimates the following operating costs for next year:

Variable operating costs	\$3 per room
Fixed costs	
Salaries and wages	\$175,000
Maintenance of building and pool	37,000
Other operating and administration costs	<u>140,000</u>
Total fixed costs	<u>\$352,000</u>

Beck anticipates that he will rent 16,000 rooms next year. All rooms are similar and will rent for the same price. The capital invested in the motel is \$960,000. The partnership's target return on investment is 25%. Beck expects demand for rooms to be about uniform throughout the year. He plans to price the rooms at cost plus a markup to earn the target return on investment.

Required: Find the price which Beck should charge for a room? What is the markup over the full cost of a room?

Topic 22. Profit Planning and Budgeting

1. (CMA, adapted) Roletter Company makes and sells artistic frames for pictures of weddings, graduations, and other special events. Bob Anderson, controller, is responsible for preparing Roletter's master budget and has accumulated the information below for 19X5.

19X5

	January	February	March	April	May
Estimated sales in units	10,000	12,000	8,000	9,000	9,000
Selling price	\$54.00	\$51.50	\$51.50	\$51.50	\$51.50
Direct manufacturing labor hours per unit	2.0	2.0	1.5	1.5	1.5
Direct wages per hour	\$10.00	\$10.00	\$10.00	\$11.00	\$11.00

Besides wages, direct manufacturing labor-related costs include pension contributions of \$0.50 per hour, worker's compensation insurance of \$0.15 per hour, employee medical insurance of \$0.40 per hour, and social security taxes. Assume that as of January 1, 19X5, the social security tax rates are 7.5% for employers and 7.5% for employees. The cost of employee benefits paid by Roletter on its employees is treated as a direct manufacturing labor cost.

Roletter has a labor contract that calls for a wage increase to \$11.00 per hour on April 1, 19X5. New labor-saving machinery has been installed and will be fully operational by March 1, 19X5.

Roletter expects to have 16,000 frames on hand at December 31, 19X4, and has a policy of carrying an end-of-month inventory of 100% of the following month's sales plus 50% of the second following month's sales.

Required: Prepare a production budget and a direct manufacturing labor budget for Roletter Company by month and for the first quarter of 19X5. Both budgets may be combined in one schedule. The direct manufacturing labor budget should include labor hours and show the detail for each direct manufacturing labor cost category.

2. On December 1, 19J5, the Itami Wholesale Co. is attempting to project cash receipts and disbursements through January 31, 19X6. On this latter date, a note will be payable in the amount of \$100,000. This amount was borrowed in September to carry the company through the seasonal peak in November and December. The trial balance on December 1 shows in part:

Cash	\$10,000
Accounts receivable	280,000
Allowance for bad debts	15,800
Inventory	87,500
Accounts payable	92,000

Sales terms call for a 2% discount if payment is made within the first 10 days of the month after purchase, with the balance due by the end of the month after purchase. Experience has shown that 70% of the billings will be collected within the discount period, 20% by the end of the month after purchase, 8% in the following month, and that 2% will be uncollectible. There are no cash sales.

The average selling price of the company's products is \$100 per unit. Actual and projected sales are:

October actual	\$ 180,000
November actual	250,000

December estimated	300,000
January estimated	150,000
February estimated	120,000
Total estimated for year ended June 30, 19_6	1,500,000

All purchases are payable within 15 days. Thus approximately 50% of the purchases in a month are due and payable in the next month. The average unit purchase cost is \$70. Target ending inventories are 500 units plus 25% of the next month's unit sales. Total budgeted marketing, distribution, and customer-service costs for the year are \$400,000. Of this amount, \$150,000 is considered fixed (and includes depreciation of \$30,000). The remainder varies with sales. Both fixed and variable marketing, distribution, and customer-service costs are paid as incurred.

Required: Prepare a cash budget for December and January. Supply supporting schedules for collections of receivables, payments for merchandise, and marketing, distribution, and customer-service costs.

Topic 24. Basics of Capital Budgeting

1. Santa Ynez Products is considering investing in a project with a two-year life and a zero terminal disposal price. Operating cash inflows will be equal payments of \$4,000 at the end of each of the two years. How much would the company be willing to invest to earn an internal rate of return of 8%? Use Table 2, Appendix C, to find your answer. Prepare a tabular analysis of each payment as follows:

Year (1)	Investment at Beginning of Year (2)	Operating Cash Inflows (3)	Return at 8% per Year on Investment at Beginning of Year (4) = 8% x (2)	Amount of Investment Recovered at End of Year (5) = (3) -(4)	Unrecovered Investment at End of Year (6) = (2) -(5)
1	?	\$4,000	?	?	?
2	?	\$4,000	?	?	?

Does Santa Ynez Products recover all of its net initial investment by the end of year 2?

2. Jana Wendt is the manager of the local Country West Department Store. She is considering whether to renovate some space in the expectation of increasing sales quantities. She could just continue to use the current display fixtures and equipment. Existing fixtures and equipment are expected to last for six years and will have a terminal disposal price of zero at the end of six years.

If she does renovate the space, new display fixtures and equipment will cost \$73,000, with an expected useful life of six years and a terminal disposal price of \$4,000. Existing fixtures and equipment that have a current book value of \$15,000 can be sold immediately for \$3,000. Additional cash-operating inflows are expected to be \$25,000 per year.

However, experience has shown that in order to sustain the higher sales volume, similar renovations have required additional investments in current assets, such as merchandise inventories and accounts receivable. An initial investment of \$40,000 is needed to finance or

"carry" this working capital, and this level must be maintained continuously. If and when she decides to terminate this plan or to use the store space for other purposes, the inventories and receivables can soon be recovered or "cashed in".

Required:

- a) Compute (a) net present value, using a required rate of return of 12%; (b) internal rate of return; (c) accrual accounting rate of return based on the net initial investment; and (d) accrual accounting rate of return on the average investment. Assume straight-line depreciation.
- b) As the store manager, which capital-budgeting method would you prefer for the purposes of making this decision and for evaluating subsequent performance? Give reasons, and compare the methods.

3. A toy manufacturer that specializes in making fad items has just developed a \$50,000 molding machine for automatically producing a special toy. The machine has been used to produce only one unit so far. The company will depreciate the \$50,000 initial machine investment evenly over four years, after which time production of the toy will be stopped. The company's expected annual costs will be: direct materials, \$10,000; direct manufacturing labor, \$20,000; and variable manufacturing overhead, \$15,000. Variable manufacturing overhead varies with direct manufacturing labor costs. Fixed manufacturing overhead, exclusive of depreciation, is \$7,500 annually, and fixed marketing and administrative costs are \$12,000 annually.

Suddenly a machine salesperson appears. He has a new machine that is ideally suited for producing this toy. His automatic machine is distinctly superior. It reduces the cost of direct materials by 10% and produces twice as many units per hour. It will cost \$44,000 and will have a zero terminal disposal price at the end of four years.

Production and sales of 25,000 units per year (sales of \$100,000) will be the same whether the company uses the molding machine or the automatic machine. The current disposal price of the toy company's molding machine is \$5,000. Its terminal disposal price in four years will be \$2,600.

Required:

- a) Assume that the required rate of return is 18%. Using the net present value method, show whether the new machine should be purchased. What is the role of the book value of the old machine in the analysis?
- b) What is the payback period for the new machine?
- c) As the manager who developed the \$50,000 molding machine, you are trying to justify not buying the new \$44,000 machine. You question the accuracy of the expected cash operation savings. By how much must these cash savings fall before the point of indifference – the point where the net present value of the project is zero – is reached?

Exam writing hints

Here we present our advice concerning preparing for and taking the examinations. If you follow this advice you will be more successful at exams and will receive higher grades.

Need for practice

You should try to find the time to answer as many exercises as possible. Our reasons for saying this are as follows:

1. Even though you may think you understand the text, when you come to answer the questions you may often find your understanding incomplete. The true test of understanding is whether or not you can tackle the questions competently.
2. It is often said that practice makes perfect, a sentiment we don't fully agree with. There is, however, enough sense in it in that, if you don't do quite a lot of accounting questions, you will almost certainly not become good at accounting.
3. You simply have to get up to a good speed in answering questions: you will always fail accounting examinations if you are a very slow worker. The history of accountancy examinations so far has always been that a ridiculously large amount of work has been expected from a student during a short time. However, examining boards maintain that the examination could be completed in the time by an adequately prepared student. You can take it for granted that *adequately prepared students* are those who not only have the knowledge, but have also been trained to work quickly and, at the same time, maintain accuracy and neatness.
4. Speed itself is not enough. You also have to be neat and tidy, and follow all the proper practices and procedures while working at speed. Fast but really scruffy work can also mean failing the exam. Why is this so? At this level the examiner is very much concerned with your practical ability in the subject. Accounting is a practical subject, and your practical competence is about to be tested. The examiner will, therefore, expect the answers to be neat and well set out. Untidy work with figures spread over the page in a haphazard way, badly written figures, and columns of figures in which the vertical columns are not set down in straight lines, will incur the examiner's displeasure.
5. Appropriate presentation of information is important. Learn how to present the various financial statements you may need to produce in an examination. Examiners expect to see the items in trading and profit and loss accounts, balance sheets, and cash flow statements in the correct order and will probably deduct marks if you don't do this. Practice by writing down examples of these statements without any numbers until you always get the layout correct. One exam trick most students overlook is that the layout of a financial statement is often included in an examination paper as part of one question while another question asks you to produce a financial statement. The one you need to produce will contain different numbers but the general layout should be very similar. At the exam a special paper with an accounting table is attached to the task. It is advised that you use this paper for presentation of financial statements, which you are asked to prepare, or any other tasks involving preparation of tables. This paper will help you prepare the statements/tables in a more neat way and it will be easier for an examiner to check you answers. An example of such a paper is provided in Appendix 1 of this guide.

Need for headings

The next thing is that work should not only be neat and well laid out. Headings should always be given, and any dates needed should be inserted. The test you should apply is to imagine that you are a partner in a firm of professional accountants and you are away on holiday for a few weeks. During that time your assistants have completed all sorts of work including reports, drafting final accounts, various forms of other computations and so on. All of this work is deposited on your desk while you are away. When you return you look at each item in the pile awaiting your attention. Suppose the first item looks like a balance sheet as at 31 December in respect of one of your clients. When you look at it you can see that it is a balance sheet, but you don't know for which client, neither do you know which year it is for. Would you be annoyed with your staff? Of course you would. So, in an examination, why should the examiner accept as a piece of your work a balance sheet answer without the date or the name of the business or the fact that it is a balance sheet written clearly across the top? If proper headings are not given you will lose a lot of marks. Always put in the headings properly. Don't wait until your examination to start this correct practice. Similar attention should be paid to sub-totals which need showing, e.g. for Fixed assets or for Current assets.

The examiner

What you should say to yourself is: 'Suppose I were in charge of an office, doing this type of accounting work, what would I say if one of my assistants put on my desk a sheet of paper with accounting entries on it written in the same manner as my own efforts in attempting this question?' Just look at some of the work you have done in the past. Would you have told your assistant to go back and do the work again because it is untidy? If you say that about your own work, why should the examiner think any differently?

Anyone who works in accounting knows that untidy work leads to completely unnecessary errors. Therefore, the examiner's insistence on clear, tidy, well laid out work is not an outdated approach. Examiners want to ensure that you are not going to mess up the work of an accounting department. Imagine going to the savings bank and the manager saying to you: 'We don't know whether you've got £5 in the account or £5,000. You see, the work of our clerks is so untidy that we can never sort out exactly how much is in anybody's account.' We would guess that you would not want to put a lot of money into an account at that bank. How would you feel if someone took you to court for not paying a debt of £100 when, in fact, you owed them nothing? This sort of thing would happen all the time if we simply allowed people to keep untidy accounts. The examiner is there to ensure that the person to whom they give a certificate will be worthy of it, and will not continually mess up the work of any firm at which they may work in the future.

We can imagine quite a few of you groaning at all this, and if you do not want to pass the examination please give up reading here. If you do want to pass, and your work is untidy, what can you do about it? Well, the answer is simple enough: start right now to be neat and orderly in your work. Quite a lot of students have said to us over the years: 'I may be giving you untidy work now but, when I actually get into the exam room, I will then do my work neatly enough.' This is as near impossible as anything can be. You cannot suddenly become able to do accounting work neatly, and certainly not when you are under the stress and strain of an examination. Even the neatest worker may well find in an examination that their work may not be of its usual standard as nervousness

will cause them to make mistakes. If this is true, and you are an untidy worker now, your work in an examination is likely to be even more untidy. Have we convinced you yet?

Examination technique

By the time you sit your first examination, you will have spent a lot of hours trying to master such things as double entry, balance sheets, final adjustments, and goodness knows what else. Learning accounting/bookkeeping does demand a lot of discipline and practice. Compared with the many hours learning the subject, most students spend very little time actually considering in detail how to tackle the examination. You may be one of them, and we would like you to start planning now for that day when you will need to be able to demonstrate what you have learnt and understood, and can apply, the material in this book.

Understanding examiners

Let's start by saying that if you want to understand anything about examinations then you have got to understand examiners, so let us look together at what these peculiar creatures get up to in an examination. The first thing is that when they set an examination they are looking at it on the basis that they want good students to get a pass mark. Obviously anyone who doesn't achieve the pass mark will fail, but the object of the exercise is to find those who will pass, not find the failures. This means that if you have done your work properly, and if you are not sitting for an examination well above your intellectual capabilities, you should manage to get a pass mark. It is important for us to stress this before we get down to the details of setting about the task.

There are, however, quite a large number of students who will fail, not because they haven't put in enough hours on their studies, nor because they are unintelligent, but simply because they throw away marks unnecessarily by poor examination technique. If you can read the rest of this piece, and then say honestly that you wouldn't have committed at least one of the mistakes that we are going to mention, then you are certainly well outside the ordinary range of students.

Punctuality

Before thinking about the examination paper itself, let us think about how you are going to get to the examination room. If it is at your own college then you have no problems as to how you will get there. On the other hand, it may be an external centre. Do you know exactly where the place is? If not, you had better have a trip there if possible. How are you going to get there? If you are going by bus or train, do you know which bus or train to catch? Will it be the rush hour when it may well take you much longer than if it were held at midday?

Quite a large proportion of students lose their way to the examination room, or else arrive, breathless and flustered, at the very last minute. They then start off the attempt at the examination in a somewhat nervous state, a recipe for disaster for a lot of students. So plan how you are going to get there and give yourself enough time.

Last minute learning for your examination will be of little use to you. The last few days before the examination should not be spent cramming. You can look at past examination papers and rework some of them. This is totally different from trying to cram new facts into your head.

On your way to the examination, if you can, try relaxation exercises. Deep breathing exercises in particular will put you into a relaxed mood. If you can't do anything like this, try reading the newspaper. Granted, you will need some adrenalin to spur you into action when you actually start answering the examination paper, but you do not want to waste it before the examination instead and then put yourself into a highly nervous state.

Read the rubric carefully and follow its instructions

The rubric appears at the start of the examination paper, and says something such as:

“Candidates should answer FOUR of the following SIX questions: QUESTION 1 of Section A, TWO questions from Section B and ONE from Section C. All questions carry equal marks.”

That instruction from the examiner is to be followed exactly. The examinee (i.e. you) cannot change the instruction - it means what it says.

Now you may think that is so simple that it is not worthwhile our forcibly pointing it out to you. We wish that was the case for all students. However, you would be amazed at the quite high percentage of students who do not follow the instructions given in the rubric. Having been examiners for many years for examining bodies all over the world we can assure you that we are not overstating the case. Let us look at two typical examples where students have ignored the rubric above:

(a) A student answered *one* questions from Section A, *one* from Section B and *two* from Section C. Here the examiner will mark the one Section A answer, the one Section B answer plus the first one answer shown on the examinee's script in respect of Section C. He will not read any part of the second displayed answer to Section C. The student can therefore only get marks for three answers.

(b) A student answered *one* question from Section A, *three* questions from Section B and *one* from Section C. Here the examiner will mark the Section A answer, two first answers to Section B plus the one answer to Section C. He will not look at the third answer to Section B.

In the case of (b), the student may have done it that way deliberately, thinking that the examiner would mark all three Section B answers, and then award the student the marks from the best two answered questions. Most examiners will not waste time marking an extra answer. Students have argued that examiners would do that, but they are simply deluding themselves.

If you have time and want to give an extra answer, thinking that you will get better marks than one answered previously, then do so. If you do, make certain that the examiner is fully aware that you have deleted the answer that you do not want to have marked. Strike lines right through it, and also state that you wish to delete it. Otherwise it is possible that the first answers only will be marked and your new answer ignored.

Always remember in examinations that you should try to make life easier for the examiner. Give the examiner what he/she wants, in the way that he/she wants it. If you do, you will get better marks. Make their job harder than it needs to be and you will suffer. Examiners are only human beings after all!

Time planning

We must now look at the way in which you should tackle the examination paper. One of the problems with bookkeeping/accounting examinations is that students are expected to do a lot of work in a relatively short time. We have campaigned against this attitude, but the tradition is longstanding and here to stay. It will be the same for every other student

taking your examination, so it is not unfair so far as any one student is concerned. Working at speed does bring various disadvantages, and makes the way you tackle the examination of even greater importance than for examinations where the pace is more leisurely.

Time per question

The marks allotted to each question will indicate how long you should take in tackling the question. Most examinations are of three hours' duration, i.e. 180 minutes. This means that in a normal examination, with 100 marks in total, a 25-mark question should be allocated 25 per cent of the time, i.e. $25\% * 180 = 45$ minutes. Alternatively it is 1.8 minutes for each mark awarded for the question.

If the question is in parts, and the marks awarded are shown against each part, then that will give you a clue as to the time to be spent on each part. If part of the question asks for a description, for instance, and only 3 marks are awarded to that part, then you should not spend twenty minutes on a long and detailed description. Instead a brief description, taking about five minutes, is what is required.

Do the easiest questions first

Always tackle the easiest question first, then the next easiest question and so on. Leave the most difficult question as the last one to be attempted. Why is this good advice? The fact is most examiners usually set what might be called 'warm-up' questions. These are usually fairly short, and not very difficult questions, and the examiner will expect you to tackle these first.

You may be able to do the easiest question in less than the time allocated. The examiner is trying to be kind to you. The examiner knows that there is a certain amount of nervousness on the part of a student taking an examination, and wants to give you the chance to calm down by letting you tackle these short, relatively easy questions first of all, and generally settle down to your work.

Even where all the questions are worth equal marks, you are bound to find some easier than others. It is impossible for an examiner to set questions which are equally as difficult as each other. So, remember, start with the easiest question. This will give you a feeling of confidence. It is very desirable to start off in this way.

Do not expect that these 'warm-up' questions will be numbered 1 and 2 on your examination paper. Most accounting examinations start off with a rather long question, worth quite a lot of marks, as question number 1 on the paper. Over the years we have advised students not to tackle these questions first. A lot of students are fascinated by the fact that such a question is number 1, that it is worth a lot of marks, and their thinking runs: 'If I do this question first, and make a good job of it, then I am well on the way to passing the examination.'

There is no doubt that a speedy and successful attempt at such a question could possibly lead to a pass. The trouble is that this doesn't usually happen, and many students have admitted afterwards that their failure could be put down to simply ignoring this advice. What happens very often is that the student starts off on such a question, things don't go very well, a few mistakes are made, the student then looks at the clock and sees that they are not 'beating the clock' in terms of possible marks, and then panic descends on them. Leaving that question very hastily, the student then proceeds to the next question, which normally might have been well attempted but, because of the state of mind, a

mess is made of that one as well, and so students fail an examination which they had every right to think they could pass.

Attempt every required question

The last point concerning time allocation which we want to get through is that you should attempt each and every question as required. On each question the first few marks are the easiest to get. For instance, on an essay question it is reasonably easy to get, say, the first 10 marks in a 25-mark question. Managing to produce a perfect answer to get the last 5 marks, from 20 to 25, is extremely difficult. This applies also to computational questions.

This means that in an examination of, say, four questions with 25 marks possible for each question, there is not much point in tackling three questions only and trying to make a good job of them. The total possible marks would be 75 marks, and if you had not achieved full marks for each question, in itself extremely unlikely, you could easily fall below the pass mark of, say, 35 marks. It is better to leave questions unfinished when your allotted time, calculated as shown earlier, has expired, and to then go on immediately to the other questions. It is so easy, especially in an accounting examination, to find that one has exceeded the time allowed for a question by a considerable margin. So, although you may find it difficult to persuade yourself to do so, move on to the next question when your time for a question has expired.

Computations

When you sit an examination, you should be attempting to demonstrate how well you know the topics being examined. In accounting examinations, there are three things in particular to remember. If you fail to do so, you will probably earn less marks than your knowledge deserves. One of these things has already been mentioned - be neat and tidy. The other two have to do with computations: *show all your workings* and *don't worry if your balance sheet does not balance*.

Workings

One golden rule which should *always* be observed is to **show all of your workings**.

It is often better to put the workings on the face of the final accounts, if appropriate. For instance, if rent paid is £1,900 and £300 of it has been paid in advance, you can show it on the face of the profit and loss account as:

Rent (1,900 - 300)	£1,600
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By showing the workings in brackets you are demonstrating that you realise that they would not be shown on the published accounts. It also makes it easier for the examiner to mark.

Do balance sheets have to balance?

Many students ask: 'What should I do if my balance sheet doesn't balance?' The answer is quite simple: leave it alone and get on with answering the rest of the examination paper.

One of the reasons for this is to try and ensure that you answer the required number of questions. You might take 20 minutes to find the error, which might save you 1 mark. In that time you might have gained, say, 10 marks if, instead, you had tackled the next question, for which you would not have had time if you had wasted it by searching for the error(s). That assumes that you actually find the error(s)! Suppose you don't, you

have spent 20 minutes looking for it, have not found it, so how do you feel now? The answer is, of course: quite terrible. You may make an even bigger mess of the rest of the paper than you would have done if you had simply ignored the fact that the balance sheet did not balance. In any case, it is quite possible to get, say, 15 marks out of 16 even though the balance sheet does not balance. The error may be a very minor case for which the examiner deducts one mark only.

Of course, if you have finished all the questions, then by all means spend the rest of your time tracing the error and correcting it. Be certain, however, that your corrections are carried out neatly. Untidy crossings-out can result in the loss of marks. So, sometimes, an error found can get back one mark, which is then lost again because the corrections make an untidy mess of your paper, and examiners often deduct marks, quite rightly so, for untidy work. It might be better to write against the error 'see note', indicating exactly where the note is shown. You can then illustrate to the examiner that you know what the error is and how to correct it.

Essay questions

There are many essay questions in accounting examinations at this level and you therefore need to know the approach to use in answering such questions.

Typical questions

Before discussing these, we want you to look at two recent examination questions. Having done that, visualise carefully what you would write in answer to them. Here they are:

(a) You are employed as a bookkeeper by G Jones, a trader. State briefly what use you would make of the following documents in relation to your bookkeeping records.

(i) A bank statement.

(ii) A credit note received to correct an overcharge on an invoice.

(iii) A pay-in slip.

(iv) A petty cash voucher.

(b) Explain the term 'depreciation'. Name and describe briefly two methods of providing for depreciation of fixed assets.

Now we can test whether or not you would have made a reasonably good attempt at the questions. With question (a) a lot of students would have written down what a bank statement is, what a pay-in slip is, what a petty cash voucher is, and so on. Marks gained by you for an answer like that would be...virtually nil. Why is this? Well, you simply have not read the question properly. The question asked what *use* you would make of the documents, not *describe* what the documents were. The bank statement would be used to check against the bank column in the Cash Book or cash records to see that the bank's entries and your own are in accordance with one another, with a bank reconciliation statement being drawn up to reconcile the two sets of records. The petty cash voucher would be used as a basis for entering up the payments columns in the Petty Cash Book. The *use* of the items was asked for, not the *descriptions* of the items. Let us see if you have done better on question (b). Would you have written down how to calculate two methods of depreciation, probably the reducing balance method and the straight line method? But have you remembered that the question also asked you to *explain the term depreciation*? In other words, what is depreciation generally? A fair

number of students will have omitted that part of the question. Our guess is that far more students would have made perhaps a poor attempt at question (a) rather than doing question (b).

Underline the key words

We have already illustrated that a large percentage of students fail to answer the question set, instead answering the question they imagine it to be. Too many students write down everything they know about a topic, rather than what the examiner has asked for.

To remedy this defect, *underline the key words* in a question. This brings out the meaning so that it is difficult to misunderstand the question. For instance, let us look at the following question:

"Discuss the usefulness of departmental accounts to a business."

Many students will write down all they know about departmental accounts, how to draw them up, how to apportion overheads between departments, how to keep columnar sales and purchases journals to find the information, etc.

Number of marks gained...virtually nil.

Now underline the key words. They will be:

Discuss usefulness departmental accounts

The question is now seen to be concerned not with *describing* departmental accounts, but instead discussing the *usefulness* of departmental accounts.

Lastly, if the question says 'Draft a report on...' then the answer should be in the form of a *report*; if it says 'List the...' then the answer should consist of a *list*. Similarly 'Discuss...' asks for a *discussion*. 'Describe...' wants you to *describe* something, and so on.

You should therefore ensure that you are going to give the examiner

(i) What he is asking for *plus*

(ii) In the way that he wants it.

If you do not comply with (i) you may lose all the marks. If you manage to fulfil (i) but do not satisfy the examiner on (ii) you will still lose a lot of marks.

It is also just as important in computational questions to underline the key words to get at the meaning of a question, and then answer it in the manner required by the examiner. With computational questions it is better to look at what is required first before reading all of the rest of the question. That way, when you are reading the rest of the question, you are able to decide how to tackle it.

Never write out the question

Often - too often - students spend time writing out the text of essay questions before they set about answering them. This is a complete waste of time. It will not gain marks and should never be done.

Running out of time?

If your plans don't work out, you may find yourself with a question you could answer, but simply do not have the time to do it properly. It is better to write a short note to the examiner to that effect, and put down what you can of the main points in an abbreviated fashion. This will show that you have the knowledge and should gain you some marks.

Summary

Remember:

- (a) Read the rubric, i.e. the instructions.
- (b) Plan your time before you start.
- (c) Tackle the easiest questions first.
- (d) Finish off answering each question when your time allocation for the question is up.
- (e) Hand in all your workings.
- (f) Do remember to be neat, also include all proper headings, dates, sub-totals, etc. A lot of marks can be lost here.
- (g) Only answer as many questions as you are asked to tackle by the examiner. Extra answers will not normally be marked and certainly won't get credit.
- (h) Underline the key words in each question to ensure that you answer the question set, and not the question you wrongly take it to be.
- (i) Never write out the text of essay questions.