



Introduction to Finance

31 May 2016

Examination Paper

Answer any FOUR (4) questions.

Clearly cross out surplus answers.

Failure to do this will result in only the first FOUR (4) answers being marked.

Time: 3 hours

The maximum mark for this paper is 100.

Any reference material brought into the examination room must be handed to the invigilator before the start of the examination.

Candidates are allowed to use a scientific calculator during this examination.

Answer any FOUR (4) questions

	Marks
Question 1	
a) Explain THREE (3) purposes of classifying costs in terms of planning, <i>decision making</i> and <i>control</i> .	6
b) Identify THREE (3) major types of cost classification.	3
i) Outline how costs should be classified to ensure the value of inventory of unsold goods stated correctly.	2
c) Using examples as appropriate define the following concepts.	
i) Period costs.	2
ii) Product costs.	2
iii) Stepped costs.	2
iv) Semi-variable costs.	2
d) Cost classification must be relevant to the responsibility level for which costs are reported. Explain with an example the following types of responsibility centres	
i) Cost centre.	2
ii) Profit centre.	2
iii) Investment centre.	2
	Total 25 Marks

Question 2

- a) Explain THREE (3) benefits for an organisation from producing a cash flow budget. 9
- b) John is investing £10,000 to start up a gardening business. The business will commence trading on the 1st January. He expects to gain 1 project per month for the first 6 months of trading; each project will generate £10,000 of sales. Customers will be expected to pay 25% of the price as a deposit with the balance on completion. Each project is expected to last one month. The main costs associated with the start-up are: 16
- Equipment: £2,500 (month 1) and £2,500 (month 4)
 - A total investment of £5,000 for marketing (£1000 in January and then £500 each month).
 - Legal and accounting costs: £1,250 (month 1)
 - Project materials: £3,000 per project (it is assumed that suppliers will allow John 30 days to pay for these costs).
 - Sub-contracted labour (other tradesmen): £4,000 per month. These will be paid in the month incurred.
 - John will pay himself a salary of £1,000 each per month whilst the business is established.
 - Other sundry costs of £500 per month have been assumed

Based on the information provided above, set out a cash budget for John for the next 4 months.

Total 25 Marks

Question 3

- a) Explain with examples the term 'non-current assets'. 5
- b) Define the term *depreciation* and explain its purpose. 4
- i) Explain the TWO (2) major methods of depreciation. 6
- ii) Outline TWO (2) factors that will influence the choice of depreciation method. 4
- iii) ABC company has calculated their 2015 depreciation charge at £2,500. Explain how this transaction impacts upon the income statement and the statement of financial position. 3
- iv) Using the accounting equation explain the impact of selling a non-fixed asset with a book value of £5,000 for £2,000 cash. 3

Total 25 Marks

Question 4

a) A logistics/haulage company was set up on 1 January. In Year 1 a vehicle was purchased for £100,000 with the owner injecting the capital from their savings. Relevant Information:

- The vehicle will be used for 4 years;
- Estimated residual value of £20,000 (second hand).
- During the 1st year cash receipts from sales were £150,000.
- Cash expenses were £60,000 for wages, petrol and running costs.

- i) Calculate the annual depreciation using the straight line method. **3**
- ii) Produce an income statement for year 1 of the business. **5**
- iii) Produce a statement of financial position for the business for end of year 1. **9**

b) There are several users of financial information. For each of the following user groups, outline their information needs:

- i) Management **2**
- ii) Owners as investors **2**
- iii) Employees **2**
- iv) Public Interest **2**

Total 25 Marks

Question 5

a) Explain the following accounting terms:

- i) Contribution. 2
- ii) *Sunk cost*. 2
- iii) Relevant cost. 2

b) There are several differences between management accounting and financial accounting. Complete the following table with a word or very short sentence in each box. The first row has been completed as an example. 12

	Financial Accounting	Management Accounting
Nature of the reports produced	<i>General purpose</i>	<i>Very specific</i>
Users		
Level of detail		
Regulations		
Reporting interval		
Time orientation		
Range and quality of information		

- c) Map Ltd manufacture a standard navigation system which it sells to a large on-line retailer for £30. Next year the business has forecast sales of 20,000 units.

Manufacturing Costs	
Variable materials	£10 per system
Variable labour	£6 per system
Other variable costs	£4 per system
Fixed costs(production overheads)	£70,000 per year
Administration & Selling Costs	
Fixed	£70,000 per year

- i) Calculate the breakeven point for next year both in revenue and in units. **5**
Show your workings.
- ii) Define and calculate the margin of safety for MAP Ltd. **2**

Total 25 Marks

End of paper