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Centre Number						Candidate Number					
Candidate Signature											

For Examiner's Use
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General Certificate of Education  
 January 2007  
 Advanced Level Examination



**APPLIED BUSINESS**  
**Unit 15 Financial Accounting for Managers**

**BS15**

Thursday 25 January 2007 1.30 pm to 3.00 pm

<p><b>For this paper you must have:</b></p> <ul style="list-style-type: none"> <li>a calculator.</li> </ul>
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For Examiner's Use			
Question	Mark	Question	Mark
1		3	
2			
Total (Column 1) →			
Total (Column 2) →			
TOTAL			
Examiner's Initials			

Time allowed: 1 hour 30 minutes

**Instructions**

- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- Do all rough work in this book. Cross through any work you do not want to be marked.
- If you need additional space, you should continue your answers at the end of this book, indicating clearly which question you are answering.

**Information**

- The maximum mark for this paper is 80.
- The marks for questions are shown in brackets.
- Questions 2(g) and 3(d) should be answered in continuous prose. In these questions you will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

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Answer **all** questions in the spaces provided.

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1 Read **Item A** and then answer the questions that follow.

**Item A**

**A year of expansion**

*Furniture for Gardens Ltd (FFG)* has been manufacturing high quality wooden garden furniture for ten years. It sells to customers through mail order and from its factory shop. Sales and profits have gradually increased each year since the company started.

*FFG* has signed a contract with the retailer *Better Homes* to supply wooden garden furniture. In order to meet this large contract (30% of total sales) *FFG* needed to:

- buy more manufacturing equipment
- employ more manufacturing workers
- buy much larger stocks of raw materials.

The contract stated that *Better Homes* would be allowed a period of 60 days' trade credit. Previously, *FFG* had allowed a period of 30 days' trade credit.

On 2 November 2006, *FFG* received a purchase order from *Better Homes*, for 100 sets of garden furniture at £200 per set, less a trade discount of 5%. The order was subject to VAT at 17.5%.

- (a) (i) Using **Item A**, complete the invoice below and calculate the correct value that *FFG* should send to *Better Homes* for the garden furniture ordered on 2 November 2006.

<p><b>INVOICE</b>  <i>Furniture for Gardens Ltd</i>                  71 The Hillside                  Guildown                  Surrey                  GD10 3AT</p>					
Invoice Number: 1001				Date: 2 November 2006	
To: Better Homes Unit 2 Midtown Business Park Darlesbury DA14 5NX					
Quantity	Description	Unit price		Total amount	
		£	p	£	p
	Sets garden furniture				
Total					
Less 5% trade discount					
Sub total					
Add VAT @17.5%					
Total due					

(3 marks)

- (ii) On 12 November 2006, *Better Homes* returned garden furniture worth £600 to *FFG* because it had been damaged in transit to *Better Homes*.

Which financial document would *FFG* use to deal with this returned garden furniture? Explain the purpose of the document.

Document .....

Explanation .....

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(2 marks)

(b) On 30 November 2006, *FFG* sent a Statement of Account to *Better Homes*.

(i) Explain, with reference to the transactions in **(a)(i)** and **(a)(ii)**, the purpose of this document.

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(2 marks)

(ii) Calculate the amount *Better Homes* now owes *FFG*.

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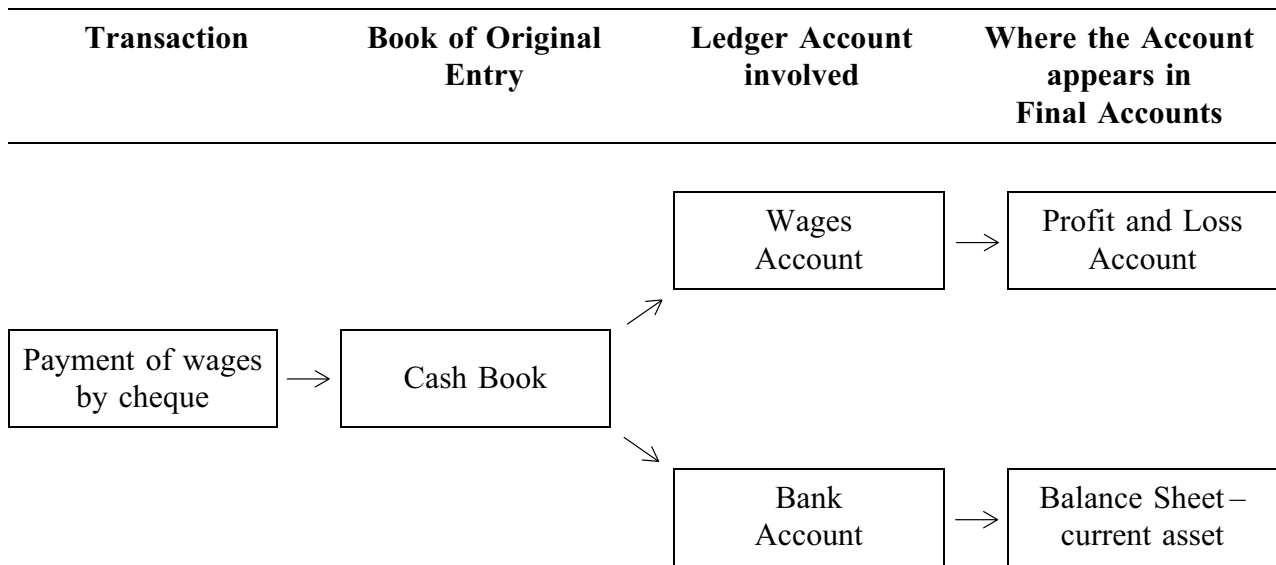
(1 mark)

(c) Explain why it is important to *FFG* to ensure that its financial documents are accurate when selling garden furniture to *Better Homes*.

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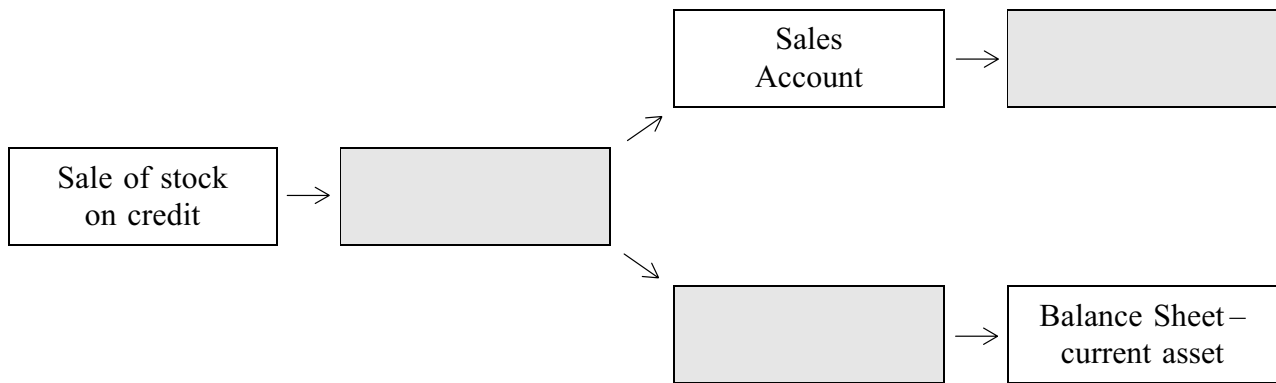
(3 marks)

(d) The flow chart below shows how a recent transaction at *FFG* would have been recorded in the business's accounting system.



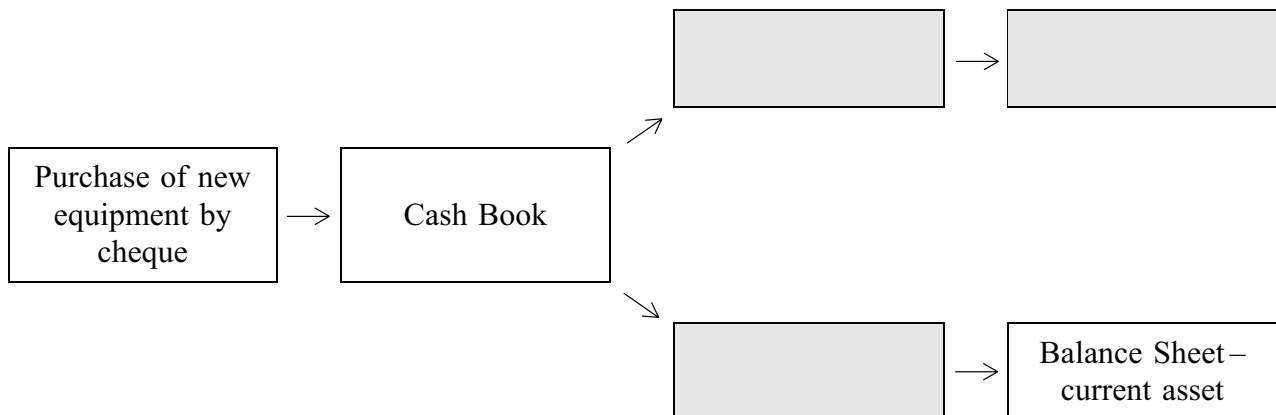
Complete the flow charts for the situations set out below by filling in the shaded boxes with the correct information.

(i)



(3 marks)

(ii)



(3 marks)

2 Read **Item B** and then answer the questions that follow.

**Item B**  
**Year-end results**

A trial balance at 31 December 2006, for *Furniture for Gardens Ltd (FFG)*, has been prepared to check the arithmetical accuracy of the book-keeping entries. The following information is an extract from the trial balance of *FFG*.

*Furniture for Gardens Ltd*  
**Trial Balance (extract) as at 31 December 2006**

	£
Machinery at cost	180 000
Debtors	140 000
Insurance	18 000
Stock at 1 January 2006	
Raw materials	40 000
Finished goods	50 000
Distribution expenses	15 000

Stocks of raw materials and finished goods have been valued at cost price.

(a) Identify and explain the effect of **one** error that could be made in the books of *FFG* that would **not** be identified by the preparation of a trial balance.

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(3 marks)

- (b) An amount for distribution expenses of £5000 was outstanding at 31 December 2006. Calculate the amount for distribution expenses that should be included in the profit and loss account. Show your workings.

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(2 marks)

- (c) The amount for insurance in the trial balance included £6000 for the following year. Calculate the amount for insurance that should be included in the profit and loss account for the year ending 31 December 2006. Show your workings.

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(2 marks)

- (d) The machinery was bought on 1 January 2006.

*FFG* expects the machinery listed in the trial balance to have a working life of four years and it will have no re-sale value when disposed of.

The machinery is to be depreciated using the straight-line method.

Calculate the amount that should be charged for the depreciation of machinery in the profit and loss account for the year ending 31 December 2006. Show your workings.

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(2 marks)

**Question 2 continues on the next page**

- (e) Complete the Manufacturing and Trading and Profit and Loss Account below. Use **Item B** and the answers that you calculated in questions **2(b)**, **(c)** and **(d)**.

The information should be entered in the shaded boxes.

*Furniture for Gardens Ltd*  
**Manufacturing and Trading and Profit and Loss Account**  
**for the year ending 31 December 2006**

	£	£
Stock of raw materials at 1 January 2006	40 000	
Add purchases of raw materials	450 000	
	490 000	
Less stock of raw materials at 31 December 2006	50 000	
Cost of raw materials consumed	440 000	
Direct labour	90 000	
<b>Prime cost</b>		
Factory power	55 000	
Depreciation of factory machinery		
<b>Production cost of goods completed</b>	630 000	
Turnover		820 000
Less cost of sales:		
Stock of finished goods at 1 January 2006	50 000	
<b>Production cost of goods completed</b>	630 000	
	680 000	
Less stock of finished goods at 31 December 2006	75 000	
<b>Gross profit</b>		215 000
Less expenses:		
Office salaries	75 000	
Insurance		
Distribution expenses		
Administration expenses	18 000	
<b>Net profit</b>		90 000

(3 marks)



- (f) Complete the Balance Sheet below. Use the information from the answer that you calculated in question 2(d).

The information should be entered in the shaded boxes.

***Furniture for Gardens Ltd***  
**Balance Sheet as at 31 December 2006**

	Cost £	Total depreciation £	Net Book Value (NBV) £
Fixed assets:			
Premises	295 000	—	295 000
Machinery	180 000		
Current assets:			
Stocks			
Raw materials	50 000		
Finished goods	75 000		
Debtors	140 000		
Expenses prepaid	6 000	271 000	
<i>Less</i> Current liabilities:			
Trade creditors	85 000		
Bank overdraft	64 000		
Expenses owing	5 000	154 000	
Net total assets			
Financed by:			
Share capital at 1 January 2006			457 000
Add net profit			90 000
Capital employed			547 000

(4 marks)

Question 2 continues on the next page

- (g) The Sales Director of *FFG* is concerned that stocks of finished goods have been valued at cost price. She has suggested that if these stocks had been valued at selling price then both profits and asset values would be higher.

Why should stocks of finished goods be valued at cost price? Use accounting concepts to justify your answer.

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*(10 marks)*

3 Read **Item C** and then answer the questions that follow.

### Item C

#### A good year for *Furniture for Gardens Ltd*?

The year ending 31 December 2006, was a year of expansion for *Furniture for Gardens Ltd (FFG)* and the first year of a large contract with *Better Homes*.

The directors of *FFG* met to review the financial results for the year ending 31 December 2006. At the meeting the accounting ratios for the year were presented. There was a difference of opinion as to whether the financial performance of *FFG* had improved or not during the year.

The Managing Director expressed concern, "The business is not as efficient as in previous years." The Purchasing Director added, "Several of our suppliers are unhappy at the time it is taking for them to be paid for the materials they have provided."

The Financial Director commented, "The solvency position of *FFG* has been weakened as a result of the decision to accept the *Better Homes* contract that allows a trade credit period of 60 days."

However, the Sales Director was quite annoyed at the comments from her fellow directors exclaiming, "I pay no attention to accounting ratios. The sales and profits have increased this year so surely the business is doing better!"

The following information was provided to the directors.

#### **Trade Credit**

*FFG* is allowed trade credit of 30 days by its suppliers.  
*FFG* allows *Better Homes* 60 days' trade credit.

#### **Accounting ratios**

Ratio		31/12/06	31/12/05
Efficiency	Stock turnover	9.68 times	12 times
	Debtors collection period	62 days	35 days
	Creditors payment period	69 days	28 days
	Asset turnover (sales/fixed assets)	1.91:1	3:1
Solvency	Current ratio	1.76:1	2.05:1
	Acid test ratio	0.95:1	1.32:1
Profitability	Gross profit margin	26.22%	20%
	Net profit margin	10.97%	8%
	Return on capital employed ratio	16.45%	15%

- (a) Both the Managing Director and the Purchasing Director of *FFG* have expressed concerns about the efficiency of the business.

Using **Item C**, to what extent do you agree with these concerns? Justify your answer.

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(8 marks)

- (b) The Financial Director of *FFG* has commented that the solvency position of *FFG* has weakened.

Using **Item C**, to what extent do you agree with his concern? Justify your answer.

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(8 marks)

**Question 3 continues on the next page**

- (c) The Sales Director does not pay attention to accounting ratios believing that the level of profit is the most important indicator of success.

Using **Item C**, to what extent do you agree with her view? Justify your answer.

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(9 marks)

(d) Using **Item C** and any other data, discuss the actions that could be taken to improve the financial performance of *FFG*.

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(12 marks)

END OF QUESTIONS

