

ACCOUNTANCY MAY 2015

QUESTION 1 -- ANSWER

(a)

<u>FINAL FRONTIER SOCIAL CLUB LIMITED</u>		<u>Actual</u>
A Bar Trading Account		
Bar Sales		300,000
LESS: Cost of sales		
Opening stocks	(16,000)	
Purchases	<u>(184,000)</u>	
	(200,000)	
Less closing stocks	<u>26,000</u>	
		<u>(174,000)</u>
Gross Profit		126,000
	(Actual - 42%)	
B Other Income		
Fruit machines	20,000	
Other games and entertainments	<u>13,000</u>	
		<u>33,000</u>
		159,000
C Costs		
Wages and N.I.C.	(72,000)	
Heat, fuel and lighting	(12,000)	
Rates and water	(22,000)	
Other costs	<u>(50,500)</u>	
		<u>(156,500)</u>
D Profit for the year		<u>2,500</u>

(b)

A The Committee have not achieved their business objectives.

Bar trading shows that the bar sales were less than anticipated by £25,000, this being a shortfall of 7.7% against budget.

The gross profit of £126,000 on the reduced sales was earned at the rate of 42% whereas that budgeted for was 46%.

The indications are that the Committee have lost sight of their goals. This may be by all or any combination of the following:-

by selling too cheaply, or

by failing to pass on cost price increases, or

by failing to obtain better deals from the beer suppliers, or

by failing to attract members to buy the beers being sold.

The gross profit is less than budget by £23,500 a 15.7% shortfall against budgeted gross profits of £149,500.

B The total of the other income shows a favourable amount of £33,000 compared to a budget of £30,000. This is attributable to the income from other games and entertainments totalling £13,000 compared to the budget of £10,000. This reflects possibly some hard work by the Committee but is spoilt by the bar trading results. The fruit machine income is exactly equal to the budget which is good in respect of expectations but might require some consideration as to book-keeping accuracies.

C Actual costs totalled £156,500 and show an adverse variance on budget of £7,000 (4.7%). The costs of heating etc, rates and water, and other costs have been accurately budgeted for but in view of the reduced level of bar sales a reduced amount of costs should have been expected. The Wages and N.I.C. costs of £72,000 account entirely for the adverse variance of £7,000. The Committee have failed to control the wages costs especially on view of the reduced bar sales. The Committee originally budgetted for wages etc to be 20% of the bar sales. The actual results show 24%, a major area of weakness in the accounts.

The overall results are very disappointing and the Committee have either not prepared their original budget correctly (to reflect reality) or they have not established a proper system of control over the clubs budget and finances.

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QUESTION 2- ANSWER

1. Fixed assets

These are tangible assets (items which are owned) having a useful life in the business which extends over several years and as such are not "exhausted" within the next twelve month period. They include items such as fixtures, fittings and equipment and they also include a club's freehold land and buildings.

2. Current assets

These are assets (items which are owned) which are either cash and bank balances to start with or are assets which will be converted into cash and bank balances within the next accounting period (twelve months). They include items such as stocks, debtors and prepayments, and investments.

3. Current liabilities

These are liabilities (amounts which are owed) which are payable within the next accounting period (twelve months). They include items such as trade creditors for beer supplies, amounts owed for expenses, value added tax liability, PAYE liability, corporation tax liability and loan repayments which are due within the next twelve months.

4. Long term liabilities

These are liabilities (amounts which are owed) which are due to be paid after more than twelve months from the balance sheet date. These include bank loans and brewery loans.

5. Shareholders funds

This comprises the share capital of the club together with the accumulation of profits (less losses) from the date the club first opened. The latter is often referred to as the "Reserves" of the club or the "Accumulated Funds". The share capital plus reserves represents the total of shareholder's funds.

6. Debtors

These are assets which are owed to the business. They are normally shown as current assets because the amounts involved are receivable within twelve months of the balance sheet date. People and organisations who owe money to the club are therefore the club's debtors.

7. Creditors

These represent liabilities of the club. They can either be current liabilities or long term liabilities. Whenever the club owes money to some other person or organisation they therefore represent the club's creditors.

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QUESTION 2- ANSWER Continued

SUGGESTIONS TO IMPROVE THE OVERALL STATE OF AFFAIRS

Calculate the cash and stock requirements of the business within the next accounting period. This starts with the Net Current Assets of £53,000. The liabilities to be paid are the trade creditors of £8,000 and the sundry creditors of £2,000. The club therefore needs at least £10,000 worth of current assets. The excess could be transferred into the secure guaranteed investment giving 10% interest. The proposals are therefore:-

- 1 -Bank as much cash as possible into the current account say £23,000 to leave a cash float of say £2,000.
- 2 -Pay off the overdraft of £5,000 from the current account.
- 3 -Reduce the stocks to reflect say one months trade - this would create more cash in the bank. Stocks could be reduce to say £8,000.
- 4 -Transfer the whole of the deposit account balance of £22,000 and a large part of the resultant current account balance say £25,000 to the better investment of 10% held in the secure guaranteed investment.

The results of the above are shown below to create net current assets of £6,000. Any sensible variation on these figures would also be acceptable as correct. Other possible advice might include the collection of the Debtors of £1,000.

BALANCE SHEET AT 31 DECEMBER

	Original	Adjustments		Revised
		+	-	
FIXED ASSETS				
Property, fixtures and fittings	230,000			230,000
Secure guaranteed investment - 10% return	500	(+22000+25000)		47,500
	<u>230,500</u>			<u>277,500</u>
CURRENT ASSETS				
Stocks	20,000		(-12000)	8,000
Debtors	1,000			1,000
Bank deposit account - 2% return	22,000		(-22000)	
Bank Current account		(+23000+12000-5000-25000)		5,000
Cash in hand	25,000		(-23000)	2,000
	<u>68,000</u>			<u>16,000</u>
CURRENT LIABILITIES				
Bank overdraft	(5,000)	(+5000)		
Trade creditors -1 months trade	(8,000)			(8,000)
Sundry creditors	(2,000)			(2,000)
	<u>(15,000)</u>			<u>(10,000)</u>
NET CURRENT ASSETS	<u>53,000</u>			<u>6,000</u>
	<u>283,500</u>			<u>283,500</u>
CAPITAL AND RESERVES				
Share capital	500			500
Revenue reserves	283,000			283,000
	<u>283,500</u>			<u>283,500</u>

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QUESTION 3 - ANSWER

1. Duties of the Committee of Management

The duties of the Committee of Management are laid down in the Co-operative and Community Benefit Societies Act and/or the Friendly Societies Acts. Briefly the Committee have duties which include:-

- A) Keeping proper books of account.
- B) Establishing and maintaining a proper system of financial control over the club's receipts and payments.
- C) Safeguarding the assets of the club for the benefit of the members.

In order to achieve the above the Committee must meet regularly and review all aspects of the club's financial operations.

There are also requirements to keep proper books of account and accounting records under all taxation legislation (including VAT, PAYE and NIC, Corporation Tax etc) as well as under general employment law.

2. Cash Book

TREASURER'S WEEKLY CASH BOOK - Week ended 31 December

RECEIPTS		£	PAYMENTS		£
VAT					
60.00	Club shop sales - vatable	300.00	Expenses paid out	160.00	
-	Bingo	124.00	Cash banked on 10 January	729.70	
-	Raffles and draws	186.00			
30.45	Entertainment entry fees	152.25			
6.17	Telephone box	30.83			
<u>96.62</u>	VAT	<u>96.62</u>			
		<u>889.70</u>			<u>889.70</u>

NOTE: Committee Allowances

Club shop sales	30.00
Bingo	30.00
Raffles and draws	60.00
Entertainment entry fees	30.00
Telephone box	10.00
	<u>160.00</u>

3. Concerns

Whilst the original Treasurer's cash book does balance it has incorrectly recorded what has actually happened and casts doubt on the requirement to "keep proper books of account". The treasurer has effectively "concealed" the payments made to certain members of the Committee. In addition the VAT included under certain headings has been calculated after deducting the Committee Allowances. This is contrary to VAT legislation and upon examination would cause the club to incur penalties and interest charges from HMRC.

The Committee Allowances would also be subjected to the PAYE regulations and non-compliance will again involve Penalties and interest charges.

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QUESTION 4 ANSWER

BANK CASH BOOK (Corrections)

<u>Date</u>	<u>Receipts</u>		<u>Date</u>	<u>Payments</u>	
31 May	Balance b/fwd	6,701	31 May	Bank charges	130
		<u>6,701</u>	31 May	Balance c/fwd	<u>6,571</u>
					<u>6,701</u>
<hr/>					
	Balance as per bank statement at 31 May				2,371
Add:	Uncredited deposits:				
	31 May Brewery loan				<u>6,000</u>
					8,371
Less:	Unpresented cheques:				
	26 May Brewery 005				<u>(1,800)</u>
	Balance as per bank cash book				<u>6,571</u>

QUESTION 5 - ANSWER

- | | |
|---|----|
| 1 | c) |
| 2 | c) |
| 3 | d) |
| 4 | b) |
| 5 | a) |

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QUESTION 6

a) Without the entertainment

Retail sales		960
Less VAT	1/6	<u>(160)</u>
		800
Cost of sales		<u>(440)</u>
Gross profit	45%	360
Other expenses		<u>(324)</u>
Net Profit		<u>36</u>

b) With the entertainment

Retail sales		1,920
Less VAT	1/6	<u>(320)</u>
		1,600
Cost of sales		<u>(880)</u>
Gross profit	45%	720
Entertainers	(400)	
Extra staff (3 at £7 for 4 hours)	(84)	
Advertising	(20)	
Other expenses	<u>(324)</u>	<u>(828)</u>
Net (Loss)		<u>(108)</u>

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QUESTION 7 - ANSWER

a) Prepare a handwritten pay slip for each employee to show - Gross wage, income tax deducted, National Insurance Contributions deducted and the Net Pay to be paid to the employee for the week.

	<u>A Goodbody</u>	<u>B Best</u>	<u>C Formiles</u>	<u>D Flatt</u>
Week ended 31 December 2014 (week 39)				
Number of Hours	42	35	25	30
Rate per hour	8.50	7.00	5.13	6.50
	£	£	£	£
Gross pay	357.00	245.00	128.25	195.00
Deduct: Income Tax	33.00	10.60	-	0.60
Deduct NIC	24.48	11.04	-	5.04
Net Pay	299.52	223.36	128.25	189.36

b) Show a payroll summary (as you would expect the figures to be shown in a computerised payroll) - listing the payroll details and showing the totals for the week of :-

Gross pay, Income tax, Employee's National Insurance Contributions, and total net pay. Also show the Employee's National Insurance Contributions, Employer's National Insurance Contributions and total National Insurance Contributions for the week.

Payroll Summary Week ended 31 December 2014 (Week 39)

	<u>Gross pay</u>	<u>Income Tax</u>	<u>Employees</u>	<u>Net Pay</u>	<u>Employers</u>	<u>Total NIC</u>
	£	£	NIC £	£	NIC £	£
A Goodbody	357.00	33.00	24.48	299.52	28.15	52.63
B Best	245.00	10.60	11.04	223.36	12.70	23.74
C Formiles	128.25	-	-	128.25	-	-
D Flatt	195.00	0.60	5.04	189.36	5.8	10.84
	925.25	44.20	40.56	840.49	46.65	87.21

c) The total deductions under the PAYE system for the previous three weeks were:-

The amount to be paid to HMRC before 19 January 2015 is:-

	<u>Income Tax</u>	<u>Total NIC</u>	
	£	£	£
Week 36	39.45	60.89	
Week 37	40.58	67.29	
Week 38	44.20	87.21	
Week 39	44.20	87.21	
	168.43	302.60	471.03

