

ACCOUNTANCY MAY 2011

QUESTION 1 -- ANSWER

(a)

	<u>Actual</u>
A Bar Trading Account	
Bar Sales	300,000
LESS: Cost of sales	
Opening stocks	(16,000)
Purchases	(184,000)
	<u>(200,000)</u>
Less closing stocks	26,000
	<u>(174,000)</u>
Gross Profit	126,000
	(Actual - 42%)
B Other Income	
Fruit machines	20,000
Other games and entertainments	13,000
	<u>33,000</u>
	<u>159,000</u>
C Costs	
Wages and N.I.C.	(72,000)
Heat, fuel and lighting	(12,000)
Rates and water	(22,000)
Other costs	(50,500)
	<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 budgetted 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	53,000			6,000
	<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 - The "target" volume under the terms of the agreement was 600 barrells per year. If the club had purchased entirely from the brewery it would still not have achieved 600 barrells per year and would still be liable for a shortfall charge.

This is demonstrated as follows:-

	<u>Barrells Purchased</u>			<u>Shortfall</u>
	<u>Target</u>	<u>Brewery</u>	<u>Others</u>	
Purchases year 1 of the agreement	600	550	0	50
Purchases year 2 of the agreement	600	480	0	120
Purchases year 3 of the agreement	600	450	0	150
Purchases year 4 of the agreement	600	400	0	200
				<u>520</u>

Shortfall at £50/barrell = 26000

2 - On the basis that the loan agreement and trading agreement would have been drafted originally by the brewery and offered to the club it appears that the brewery may have "mis-sold" the loan and trading agreement. The actual volumes purchased show that the club could never have achieved the "target" of 600 barrells per year. Because the previous club Committee and Secretary purchased elsewhere it might also be assumed that they were not aware of the implications of the agreements. The starting point for the agreements should have been by reference to the clubs volume of purchases before the agreements were formulated. The volume of purchases prior to the agreements should have been calculated, documented and agreed to by both the club and the brewery. The source of this information from the clubs records would be from purchase invoices, stock reports, and from the financial accounts. Once established the club and the brewery should have used the figures to predict the future volumes taking into account the clubs future plans and recognising the likely future trends in consumption.

3 - Advice on the legality and the detailed terms of the loan and trading agreement should be obtained from:-

The Working Men's Club and Institute Union Limited - through the local Branch Office
The club's Solicitors.
The club's Auditors/Accountants.

4 - The redemption statement shows that the club originally borrowed £100,000 and four years later owed the brewery £125,500 after paying off £30,000. The loan therefore increased by £55,500 by way of shortfall penalties and penalty interest charges.

The proposed new agreements target 420 barrells per year when it can be seen that the actual number of barrells sold in year four was only 350 barrells. There is an immediate shortfall of 50 barrells and the problem would no doubt escalate into the future with the brewery having an even stronger hold over the club which could also possibly include control over the clubs premises (which are presumed to be legally charged as security for the loan) . Assuming also that the club would wish to challenge the legality of the original agreements it would seem sensible for the club not to enter into a similar agreement with the brewery. The club has been offered a secured bank loan on favourable terms and should therefore seek to take up the offer and negotiate substantial discounts with beer suppliers.

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QUESTION 4 - ANSWER

Stocktakers evaluation on 6 December		4527.41
ADD: Stocks sold between 1 December and 5 December -		
Sales proceeds including VAT	3960.42	
Less: VAT (7/47)	<u>589.85</u>	
	3370.57	
Less: Gross profit 40%	<u>1348.23</u>	
		<u>2022.34</u>
		<u>6549.75213</u>

LESS: Goods delivered per Goods Received Book

	Quantity	Price	
Best Beers	6 Dozen	10.91/Dozer	65.46
Rum	12 bottles	12.21/bottle	146.52
Gin	12 bottles	11.81/bottle	141.72
Brandy	12 bottles	11.81/bottle	141.72
Light Ale	2 barrells	190.00/barre	380.00
Lager	144 gals	6.80/gal	<u>979.20</u>
			<u>1854.62</u>

Calculated stocks at cost at 30 November 4695.13

ACCOUNTANCY MAY 2011

QUESTION 5

ANSWER

BANK CASH BOOK (Corrections)

<u>Date</u>	<u>Receipts</u>		<u>Date</u>	<u>Payments</u>	
31 May	Balance b/fwd	10,441	31 May	Bank charges	130
			31 May	Balance c/fwd	<u>10,311</u>
		<u>10,441</u>			<u>10,441</u>

Balance as per bank statement at 31 May	6,111
Add: Uncredited deposits:	
31 May Brewery loan	<u>6,000</u>
	12,111
Less: Unpresented cheques:	
26 May Brewery 005	<u>(1,800)</u>
Balance as per bank cash book	<u>10,311</u>

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QUESTION 6- ANSWER

CASH ACCOUNT

07-Feb Bar takings	1637.12	07-Feb Window cleaner	75.00
08-Feb Bar takings	1824.16		
Room hire deposit	20.00		
09-Feb Bar takings	1411.12	09-Feb Organist	80.00
Gaming machines	320.40		
Pool table	35.20		
Raffles & draws	65.16		
10-Feb Bar takings	741.99	10-Feb Cash to bank	5280.01
11-Feb Bar takings	811.64		
12-Feb Bar takings	738.96	13-Feb Cash to bank	2111.30
13-Feb Bar takings	940.56	Cash float c/d	1000.00
	<u>8546.31</u>		<u>8546.31</u>

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QUESTION 7 - ANSWER

PART 1

Week ended 31 December 2010

			<u>LESS VAT</u>	<u>NET INCOME</u>
Bar takings	6370	7/47	948.72	5421.28
Fruit machines	684	7/47	101.87	582.13
Bingo (exempt)	235	Exempt	0.00	235.00
Door cover charges	470	7/47	70.00	400.00
			<u>1120.60</u>	<u>6638.40</u>

Week ended 15 January 2011

			<u>LESS VAT</u>	<u>NET INCOME</u>
Bar takings	6370	1/6	1061.67	5308.33
Fruit machines	684	1/6	114.00	570.00
Bingo (exempt)	235	Exempt	0.00	235.00
Door cover charges	470	1/6	78.33	391.67
			<u>1254.00</u>	<u>6505.00</u>

Loss to the club 133.40

PART 2

			<u>LESS VAT</u>	<u>NET</u>	<u>Add VAT at 20%</u>	<u>New Selling Price</u>	
						<u>Price</u>	<u>Increase</u>
Light beer	1.88 per pint	7/47	0.28	1.60	0.32	1.92	0.04
Heavy beer	2.35 per pint	7/47	0.35	2.00	0.40	2.40	0.05

