Fred Sinatra set up business on 1 April 2003 selling watches from a market stall.

Fred has asked you to calculate his profit for the year ended 31 March 2004 using the following information.

(i) All sales were made for cash. Payments were made by cheque unless otherwise stated.
(ii) Opening capital was $17,600 which was paid into a bank account opened on 1 April 2003.
(iii) The bank balance on 31 March 2004 was $2,120 Dr.
(iv) Fred's purchases for the year totalled $33,120, but on analysing this figure it was found to include $2,000 paid for secure display cabinets and $800 for petrol for Fred's motor car. The remainder was for the purchase of watches for resale.
(v) Fred bought a motor car to be used in the business for $5,750.
(vi) Rent of $60 per month had been paid from cash sales.
(vii) Drawings of $100 per week were taken from cash sales.
(viii) Motor car expenses for the year cost $515.
(ix) Fred kept a petty cash float of $100.
(x) Fred's pricing policy was cost plus 75%.
(xi) The motor car and display units are both to be depreciated over five years on a straight-line basis, with no residual value. A full year's depreciation is applied in the year of purchase.

REQUIRED

(a) Prepare Fred's bank account for the year ended 31 March 2004.
(b) Calculate Fred's total sales for the year ended 31 March 2004.

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[4]

(c) Calculate Fred's stock at 31 March 2004.

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[6]
(d) Prepare Fred’s Trading and Profit and Loss Account for the year ended 31 March 2004.

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(e) **State five** advantages or disadvantages of limited liability companies over sole traders or partnerships.
The books of Mary Rose gave the following information for the month ended 31 May 2003. All sales and purchases were on credit.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales ledger balance at 1 May 2003</td>
<td>$5,627</td>
</tr>
<tr>
<td>Purchases ledger balance at 1 May 2003</td>
<td>$4,388</td>
</tr>
<tr>
<td>Sales for the year</td>
<td>$100,384</td>
</tr>
<tr>
<td>Purchases for the year</td>
<td>$64,987</td>
</tr>
<tr>
<td>Sales returns</td>
<td>$1,997</td>
</tr>
<tr>
<td>Purchases returns</td>
<td>$864</td>
</tr>
<tr>
<td>Payments received from debtors (all banked)</td>
<td>$92,760</td>
</tr>
<tr>
<td>Payments made to creditors</td>
<td>$63,520</td>
</tr>
<tr>
<td>Debtor's dishonoured cheque</td>
<td>$109</td>
</tr>
<tr>
<td>Discount allowed</td>
<td>$4,082</td>
</tr>
<tr>
<td>Discount received</td>
<td>$3,241</td>
</tr>
<tr>
<td>Bad debts written off</td>
<td>$1,884</td>
</tr>
<tr>
<td>Debit balances transferred to purchases ledger control account</td>
<td>$208</td>
</tr>
</tbody>
</table>

The total of Mary Rose’s sales ledger balances is £9387, which differs from the closing balance in the sales ledger control account.

**REQUIRED**

(a) Extract the relevant information from above and prepare the sales ledger control account for the month ended 31 May 2003.
The following errors have been discovered since the sales ledger control account was prepared.

(i) A sales invoice for $2001 had been completely omitted from the books.
(ii) A page of the sales day book with entries totalling $7820 had been omitted from total sales but the individual entries had been posted to the debtors’ accounts.
(iii) A debit balance of $4020 had been omitted from the list of debtors.
(iv) A sales ledger account had been understated by $220.
(v) A purchases ledger account had been overstated by $350.
(vi) Discount allowed had been overstated by $620.
(vii) Discount received had been understated by $450.
(viii) An entry for $1620 in the sales day book had been omitted from the debtor’s account.
(ix) A contra entry had been made in the purchases ledger for a debit balance of $1412 in the sales ledger, but no entry had been made in the control accounts.
(x) A receipt of $1210 was debited to bank but not posted to the debtor’s account.
(xi) A credit note for $720, sent to a debtor, had been entered in the sales day book and posted as a sale to both accounts.
(xii) A debtor owing $1820 was declared bankrupt during May 2003. The debt was written off in the control account but no entry had been made in the debtor’s account.

REQUIRED

(b) (i) Prepare an amended sales ledger control account, extracting the relevant information from the list of errors given above.
(ii) Prepare a Statement altering the total of the sales ledger balance to agree with the new sales ledger control account balance.

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(c) Give three reasons for keeping control accounts.

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Bodger Ltd has been in the business of buying and selling washing machines for some years, but has decided to look at the possibility of manufacturing its own brand. At present, under Option 1, machines are bought in for $280 and sold for $400. You have been asked to compare this with the two new options under assessment. Under Option 1 fixed costs are minimal and are not taken into account. The figures are as follows.

<table>
<thead>
<tr>
<th></th>
<th>Option 2</th>
<th>Option 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Unit costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Materials</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Direct Labour</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>Variable Overheads</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Fixed Costs</td>
<td>$30,000,000</td>
<td>$50,000,000</td>
</tr>
<tr>
<td>Unit Selling Price</td>
<td>$370</td>
<td>$420</td>
</tr>
</tbody>
</table>

All costs relating to the washing machines are included in the above. The directors expect to sell at least 200,000 machines per annum.

REQUIRED

(a) Calculate, to the nearest whole number, the break-even point in units and in value for options 2 and 3.

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(b) Calculate which of the three options is most profitable at the following levels.

   (i) 190,000 units
   (ii) 240,000 units
   (iii) 290,000 units

(c) Calculate the level in **units** at which options 2 and 3 show the same net profit.

(d) Calculate the minimum level of production at which it is better to manufacture rather than buy in stock.
(e) Briefly assess each option.

Option 1: ...................................................................................................................... [2]
Option 2: ...................................................................................................................... [2]
Option 3: ...................................................................................................................... [2]

(f) State two assumptions which may be made when using break-even analysis and state one limitation of each assumption. Your answer should take the form of the example given below.

<table>
<thead>
<tr>
<th>ASSUMPTION</th>
<th>LIMITATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>All production is sold</td>
<td>Businesses usually have closing stock</td>
</tr>
<tr>
<td>1. ........................................</td>
<td>...........................................</td>
</tr>
<tr>
<td>........................................</td>
<td>...........................................</td>
</tr>
<tr>
<td>2. ........................................</td>
<td>...........................................</td>
</tr>
<tr>
<td>........................................</td>
<td>...........................................</td>
</tr>
</tbody>
</table>

[4]