

**CORK INSTITUTE OF TECHNOLOGY
INSTITIÚID TEICNEOLAÍOCHTA CHORCAÍ**

REPEAT Examinations AUTUMN 2016.

Module Title: Financial & Cost Accounting 2.

Module Code: ACCT 6006.

School: Business.

Programme Title: Bachelor of Business in Business Administration – Year 1

Programme Code: BBADM_7_Y1

External Examiner(s): Mr Cathal Kearney.

Internal Examiner(s): Mr. Scott McGowan.

Instructions: You are required to attempt **any two** questions. All questions carry equal marks.

Duration: 2 hours.

Sitting: Autumn 2016.

Requirements for this examination: Calculator.

Note to Candidates: Please check the Programme Title and the Module Title to ensure that you have received the correct examination paper.
If in doubt please contact an Invigilator.

Question 1 Cost Volume Profit Analysis (50 Marks)

Part 1) Breakeven Graph (15 Marks)

Required:

- 1) Draw a rough graph that demonstrates the concept of breakeven. Your graph will need to include:
 - Total Revenue.
 - Total Variable Costs.
 - Total Fixed Costs.
 - Total Costs.
 - A clearly outlined breakeven point – in both units and euro.

Note: Be sure to title your graph and carefully label each axis.

Part 2) Breakeven Calculations

Progressive PLC manufacture produces one product; the P-1000. The company expects to sell 10,000 units of this product. The company's management accountant has provided you with the following information regarding this product:

- The P-1000 is expected to sell for €1,000
- The variable cost of the S-1000 is estimated to be €600
- The company is confident that Total Fixed Costs will be €2,500,000 for the year.

You are required to:

- 1 Draw up a basic profit statement for Progressive PLC. for the “P-1000” for next year **(5 marks)**
- 2 Calculate the break-even point in units **(5 marks)**
- 3 Calculate the break-even point in euro **(5 marks)**
- 4 Explain concisely what the Breakeven point is **(5 marks)**
- 5 Calculate the margin of safety in units **(5 marks)**
- 6 Calculate the margin of safety in euro **(5 marks)**
- 7 Explain concisely what the margin of safety is **(5 marks)**
- 8 How many units of the “P-1000” will need to be sold if management want to achieve a target profit of €2,000,000? Is this likely to be achieved? Justify your answer **(5 marks)**

Total 50 Marks.

Question 2 Budgeting (50 Marks)

Part A: Mixed Budgets (35 Marks)

Tico Ltd. is a manufacturing company. It is looking to finalise its budgets for the next quarter. You have been provided with the following information for quarter 1 2016:

	January 2016	February 2016	March 2016
Sales in UNITS	200,000	150,000	190,000

- Each unit is sold for €30 Euro. All sales are for cash with payment received immediately.
- Management estimate that there are 20,000 units of finished product remaining since Quarter 4 in 2015. Management insist that the closing stock of finished goods at the end of each quarter be enough to cover 10% of the following months' sales requirement in units.
- Each unit uses 5kgs of Material A. Management estimate that there are 100,000kgs of Material A remaining since Quarter 4 in 2014. Management insist that the closing stock of raw materials at the end of each quarter be enough to cover 20% of the next months' targeted production. Material A costs €4.50 per KG.
- Sales in Units in April are expected to be 250,000 units (hint: you will need this for your closing stock requirements for Finished Goods and Raw Materials)

Required:

- 1) A Sales Budget in Euro for Quarter 1 2016 (Jan to March) **(5 Marks)**
- 2) A Finished Goods Production Budget for Quarter 1 2016 (Jan to March) **(10 Marks)**
- 3) A Raw Materials Purchases Budget for Quarter 1 2016 (Jan to March) **(15 Marks)**
- 4) Offer a reason as to why management are requesting that closing stocks of both finished goods and raw materials are to be maintained at a certain level. Also, are there any disadvantages to this? **(5 Marks)**

Part B: Budget Theory (15 Marks)

“It’s impossible to make predictions that are accurate enough to base our decisions on – as such budgeting – including cash budgeting as a waste of time”

Required:

Comment on the above statement. Do you agree or disagree with the statement? Justify your reasoning. You may use an examples to help demonstrate **(15 Marks)**

Question 3: Inventory Valuation & Taxation (50 Marks)

Part A) Inventory management and valuation (40 Marks)

Wafer Ltd. had the following stock transactions for product Z during July:

Opening Inventory (1 st July)	6,000 litres	€325 per litre
5 th July	Used (Issued) 4,145 litres	
8 th July	Purchased (Received) 1,250 litres	€345 per litre
12 th July	Used 1,900 litres	
16 th July	Purchased 1,850	€390 per litre
22 nd July	Used 1,450	
24 th July	Purchased 1,350	€425 per litre
30 th July	Used 2,850	

Required:

Prepare the store ledger card for Wafer Ltd. in relation to product Z for July 2012 using:

1. First In First Out (FIFO) method of inventory valuation **(15 Marks)**
2. The Average Cost (AVCO) method of inventory valuation **(15 Marks)**
3. Outline some of the advantages to using the average cost of inventory valuation (AVCO) **(10 Marks)**

Part B) Taxation: PAYE / PRSI: Calculating tax deductions from salary (10 Marks)

Max is single and earns an annual salary of €48,000. The following information pertains to his case:

- 1) The Single Person Tax Credit is €1,650.
- 2) The Lower band of tax is 20% on the 1st €33,800 earned.
- 3) The Higher band of tax is 40% on everything over €33,800.
- 4) The USC thresholds are as follows:
Income up to €12,012.00 at 1%
Income from €12,012.01 up to €17,576.00 is at 3%.
Income from €17,576.01 up to €70,044 is at 5.5%
Income above 70,044.00 is at 8%
- 5) PRSI is 4%.

Required: Calculate Max's net pay for the year (10 Marks)