

OPEN COMPETITION EUR/B/164/00
ADMINISTRATIVE ASSISTANTS (B5/B4)

Test d)

Field 01- Financial management/accountancy

Test based on a case study, covering several subjects in your chosen field, related to the duties required and designed to test your knowledge of the field and ability to develop ideas formulate them in a clear, logical and structured manner.

Time allowed: 2 hours 30 minutes

YOU MUST ANSWER THE QUESTIONS ON 2 AND ONLY 2 OF THE 3 SUBJECTS OFFERED

(Each of the 2 subjects dealt with will be marked out of 30. The maximum mark for this test will therefore be 60 (pass mark: 30)

DO NOT TURN THE PAGE UNTIL TOLD TO DO SO!

QUESTIONS

1. Prepare the revenue and expenditure/profit and loss account for the organisation XXX (see below) for the 9 months ending 31 December 2000, and the balance sheet as at that date, on:
(a) cash accounting basis (9 marks)
AND
(b) accruals accounting basis (13 marks)

State any assumptions that you consider necessary, for both (a) and (b) above.

2. Compare and contrast the advantages and disadvantages of cash accounting and accruals accounting. (8 marks)

Background

You are the part-time accountant for XXX, a non-governmental organisation (NGO) with the aim of encouraging young and unemployed people in deprived urban areas to improve their chances of getting into the workforce by either retraining and/or gaining additional qualifications. XXX intends to do this by providing access to training courses in subjects such as basic book-keeping, computer skills, preparation of CVs, interview skills, etc.

XXX started its activities in April 2000:

- Mr A, a retired company director and strongly committed to the aims of XXX, is a founding member. He made donations to XXX of €125 000 in cash and a building worth €250 000. XXX also received further cash donations of €48 000 from well-known companies, and office furniture and fittings worth €6 250.
- 2 employees (each on a salary of € 500 per month) were recruited from 1 April 2000 to launch XXX's activities and to raise funds. Administrative support is provided by Mrs B, who also started on 1 April and is paid a salary of € 000 per month. Salaries are paid on the 10th of the month following that for which they are due.
- The telephone costs paid in the year were €725 for the quarter to 30 June 2000 and €908 for the quarter to 30 September. The telephone bill of € 137 for the last quarter was received on 10 January 2001 and paid two weeks later.
- XXX commissioned a first batch of 5 000 publicity brochures at a cost of €6.25 each, which it paid during the year. In November 2000, it ordered another 5 000 brochures at a cost of €5.75 each. These were received on 27 December, and were paid for on 15 January 2001. At 31 December, there were 6 040 brochures remaining.
- XXX also paid €17 600 on 1 May 2000 for computer equipment, printers and other office equipment, which are depreciated on a straight-line basis over 3 years, with full depreciation in the year of purchase.
- Four fund-raising dinners were held between 1 June and 31 December, raising a total of €143 750. The cost of the events amounted to €43 125 in total, including € 781 for the last event on 15 December, paid for on 11 January 2001.

SUBJECT 1 (cont'd)

- 173 unemployed people were given help in preparing their CVs and support for interview preparation. XXX also paid €19 800 for 166 days of short training courses for a further 83 people.
- 4-month training courses (from 1 October 2000 to 31 January 2001) were organised for 150 people. The cost of €120 000 was paid in 3 equal instalments, on 1 October, 1 December and 31 January.
- In October 2000, XXX signed a contract with the European Commission to receive an annual grant of €100 000. An 80% advance was due in November and was received in December.

QUESTIONS

1. Following a careful review of the financial information presented below:

- List 6 matters that you would include in a report to senior management. (6 marks)
- and
- Justify why you would raise each matter. (12 marks)

2. Using the information below, calculate the main ratios you would use to assess the company's financial performance and financial situation. Briefly explain your choice and comment on the results you obtain. (12 marks)

Background

You are a financial analyst examining the draft financial statements at year end 31/12/2000 of company YYY. The company manufactures household products. You are aware that the company has increased its activity substantially during the year and that it has plans for future expansion.

INFORMATION FOR THE PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31/12/2000

| | <u>2000</u> (€) | <u>1999</u> (€) |
|--------------------------------------|--------------------|--------------------|
| Turnover | 24 000 000 | 13 875 000 |
| Cost of Sales (1) | <u>14 500 000</u> | <u>9 712 500</u> |
| GROSS PROFIT | 9 500 000 | 4 162 500 |
| Distribution Costs (1) | 3 280 000 | 1 110 000 |
| Administrative Expenses (1) | 1 300 000 | 1 200 000 |
| Interest paid | 80 000 | 0 |
| Loss on disposal of fixed assets (2) | <u>2 000 000</u> | <u>200 000</u> |
| | <u>6 660 000</u> | <u>2 510 000</u> |
| | 2 840 000 | 1 652 500 |
| Income from investments | <u>50 000</u> | <u>75 000</u> |
| PROFIT BEFORE TAXATION | 2 890 000 | 1 727 500 |
| Taxation | <u>300 000</u> | <u>900 000</u> |
| PROFIT AFTER TAXATION | 2 590 000 | 827 500 |
| Dividends proposed | <u>150 000</u> | <u>150 000</u> |
| Retained profit | 2 440 000 | 677 500 |
| Profit brought forward | <u>5 720 000</u> | <u>5 042 500</u> |
| Retained profit carried forward | 8 160 000 | 5 720 000 |

(1) Depreciation has been included in the above headings as follows:

| | (€) | (€) |
|-------------------------|---------------|----------------|
| Cost of sales | 180 000 | 40 000 |
| Distribution Costs | 60 000 | 50 000 |
| Administrative Expenses | <u>60 000</u> | <u>150 000</u> |
| | 300 000 | 240 000 |

(2) Net of €100 000 sale proceeds.

SUBJECT 2 (cont'd)

INFORMATION FOR THE BALANCE SHEET AS AT 31/12/2000

| | 2000 | 1999 |
|---------------------------------|------------------|------------------|
| | (€) | (€) |
| A. FIXED ASSETS | | |
| Tangible assets (3) | 3 770 000 | 3 670 000 |
| Investments | <u>2 600 000</u> | <u>2 600 000</u> |
| | 6 370 000 | 6 270 000 |
| B. CURRENT ASSETS | | |
| Stock | 4 500 000 | 1 500 000 |
| Trade debtors | 3 900 000 | 1 700 000 |
| Bank | <u>0</u> | <u>400 000</u> |
| | 8 400 000 | 3 600 000 |
| C. CURRENT LIABILITIES | | |
| Trade creditors | 3 500 000 | 1 100 000 |
| Taxation | 300 000 | 900 000 |
| Dividends | 150 000 | 150 000 |
| Short-term bank loans | <u>660 000</u> | <u>0</u> |
| | 4 610 000 | 2 150 000 |
| D. CAPITAL | | |
| Share capital | 2 000 000 | 2 000 000 |
| Retained profit carried forward | <u>8 160 000</u> | <u>5 720 000</u> |
| | 10 160 000 | 7 720 000 |

(3) The movement in the fixed assets during the year was as follows:

| | <u>Cost</u> | <u>Depreciation</u> | <u>Balance</u> |
|---------------------|--------------------|----------------------------|-----------------------|
| | (€) | (€) | (€) |
| Opening balance | 5 000 000 | (1 330 000) | 3 670 000 |
| Additions | 2 500 000 | 0 | 2 500 000 |
| Disposals | (3 200 000) | 1 100 000 | (2 100 000) |
| Depreciation charge | <u>0</u> | <u>(300 000)</u> | <u>(300 000)</u> |
| Closing balance | 4 300 000 | (530 000) | 3 770 000 |

QUESTIONS

1. Draw up the budget as presented by the NGO ZZZ (8 marks).
Point out all inconsistencies and/or constraints, if any, included in the project as it stands (8 marks).
Justify/explain your reasons and indicate solutions (8 marks).
2. What are the advantages and disadvantages of budgeting? (6 marks)

Background

An International Institution has set up a programme to inform students of the horror of war through projects implemented by a non-governmental organisation ZZZ.

The NGO ZZZ has put forward a project to be implemented in 2002 (to be completed by 31 December), targeting the students in the 15 schools of the region XYZ. Each school has 500 students. ZZZ has assigned 4 staff (total yearly cost €40 000) specifically to implement this project.

The project is based on three different pillars:

- a) One-day visit by all the students to the most important battlefield in the region and to its museum in the month of May 2002, the only month allowed by the school regulations;
- b) A quarterly magazine, copying parts of the most important books about wars, to be distributed to the schools;
- c) Organisation of a mobile photo exhibition about wars, which will visit each school.

The project application to be submitted by ZZZ to the International Institution contains the following information for the three pillars:

- a) For each one-day visit to the battlefield, a bus for 110 persons will be hired at a cost of €1 000. For each bus, 10 adults (6 teachers from the school and 4 the staff members of the NGO) will accompany the students and will provide information to them.
Entrance tickets to the museum cost €5 each, with free entrance for teachers and accompanying adults.
The NGO will offer a meal to each participant (cost €10 each).
- b) The NGO will buy the software necessary to produce the magazine (€2 000)
The printing cost for each copy of the magazine is €2.
50 copies of the magazine will be sent to each school (postage cost €0.2 per copy).
The first edition of the magazine will be ready in June 2002.
- c) The design and organisation of the exhibition will be handled by a hired consultant (estimated 15 days at a daily cost of €500) in April 2002. Exhibition materials cost: €2 000.
In May 2002, before the end-of-year exam, the exhibition will be transported to each school and showed for 3 days. Two of the four NGO staff members will stay at the school and explain the photos to the students. The exhibition transport costs for each school visit amount to €250.

The NGO foresees a contingency reserve of 5% to add to total costs.