



INTRODUCTION TO ACCOUNTING AND ECONOMICS

18th MARCH 2013

Examination Paper

Answer ALL questions.

Clearly cross out surplus answers.

Time: 2 hours

Any reference material brought into the examination room must be handed to the invigilator before the start of the examination.

QUESTION 1

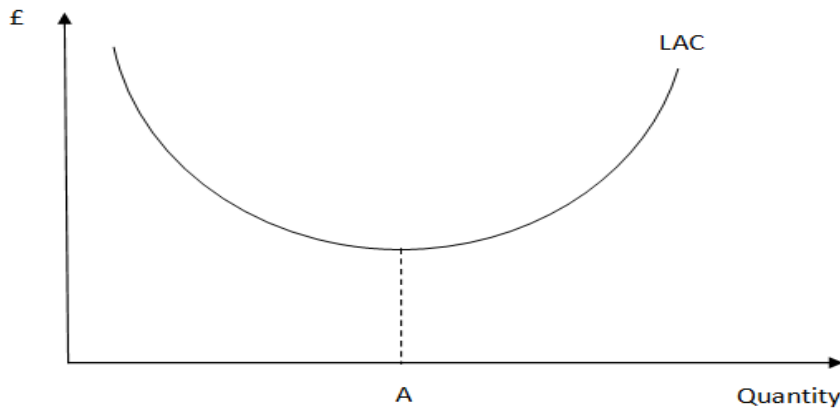
Marks

- a) Outline THREE (3) different ways of measuring the size of a business. 3
- b) Explain what a demand curve is. 2
- c) Define the following terms.
 - i) Equilibrium 1
 - ii) Marginal cost 1
- d) State two ways of describing the output at which a firm's profit is maximised. 3

Total 10 Marks

QUESTION 2

- a) Define *long run average cost*. 2
- b) Explain what the following long run average cost curve is showing. 4



- c) What FOUR (4) conditions are necessary for a perfectly competitive market to exist? 4

Total 10 Marks

QUESTION 3

- a) Identify THREE (3) different uses of money. 3
- b) Define the following terms.
 - i) Inflation 1
 - ii) Interest rate 1
- c) What are the main responsibilities of a Central Bank? 3
- d) Why is the lowering of interest rates by a Central Bank expected to lead to higher economic activity? 2

Total 10 Marks

QUESTION 4**Marks**

- a) Explain briefly the purposes of the following financial statements.
- i) Income statement 1
 - ii) Balance sheet 2
- b) Define and distinguish between revenue expenses and capital expenses. 4
- c) Define and distinguish between a cash transaction and a credit transaction. 3

Total 10 Marks**QUESTION 5**

- a) Company XYZ paid £920,000 for a new machine and estimate that it will have a useful life of 5 years. After 5 years, it will have a scrap or residual value of £50,000. 4

Using the straight line method, calculate the **annual depreciation charge** for this piece of machinery.

- b) The balance sheet (or statement of financial position) for Petrona plc as at 31st December 2012 is detailed below. Using this information, calculate Petrona's current ratio **and** acid test ratio for 2012. 6

ASSETS	2011
Non current assets	(£000,000)
Property, plant and equipment	1,150
Intangible assets	110
Investments	52
Current assets	
Inventories	16
Trade receivables	27
Cash and cash equivalents	3
Total assets	1,358
EQUITY AND LIABILITIES	
Equity	
Share capital	800
Retained earnings	207
Total equity	1007

Non current liabilities	
Long term borrowings	285
Current liabilities	
Trade and other payables	38
Short term borrowings	28
Total current liabilities	66
Total liabilities	351
Total equity and liabilities	1,358

Total 10 Marks

END OF PAPER