**ACCOUNTING FOR BUSINESS RESIT MOCK EXAM**

**ANSWER QUESTION 1 AND ANY THREE OTHER QUESTIONS**

**Section A: Compulsory question for 40 marks**

**Question** 1

The trial balance below is for S plc for the y/e 31/12/2021 [in £000s]

|  |  |  |
| --- | --- | --- |
| £1 Ordinary share capital |  | 330 |
| 6% Long term bank loan |  | 100 |
| 12% Debentures |  | 100 |
| Share premium |  | 110 |
| Purchases and Sales | 800 | 1300 |
| Inventory 1/1/2021 | 150 |  |
| Receivables and payables | 94 | 75 |
| Distribution expenses | 40 |  |
| Rates and insurance | 50 |  |
| Staff salaries | 90 |  |
| Advertising | 30 |  |
| Utilities | 20 |  |
| Audit fee | 15 |  |
| Bad debt | 2 |  |
| Directors’ remuneration | 36 |  |
| Debenture interest | 11 |  |
| Interest on bank loan | 6 |  |
| Cash | 2 |  |
| Bank | 4 |  |
| Premises at cost | 500 |  |
| Equipment at cost | 240 |  |
| Equipment – accumulated depreciation |  | 40 |
| Furniture & fittings at cost | 100 |  |
| Furniture & fittings – accumulated depreciation |  | 60 |
| Retained profits |  | 100 |
| Interim ordinary dividend | 25 |  |
| Totals | 2215 | 2215 |

**Additional information as at 31/12/2021**:

* Inventory was valued at £170,000.
* Prepayments for: Insurance £6000; advertising £4000.
* Accruals for: Rates £1000; Utilities £2000; Audit fee £000
* The equipment to be depreciated by 20% on reducing balance
* The furniture & fittings to be depreciated by 20% on straight line.
* The directors wish to provide £32,000 for taxation.
* The directors propose a final ordinary dividend of 10p per share.

**Required:**

**a) Income Statement for the year ended 31/12/2021. [18 marks]**

**b) Statement of Financial Position as at 31/12/2021. [18 marks]**

**c) Theory question on the two types expenditure. [4 marks]**

**Section B: Attempt ANY Two questions – 30 marks each**

**Question 2**.

A new product to be launched has the following details:

Budgeted production and sales are 22,000 units.

Maximum capacity is 40,000 units.

Selling price per unit is £225

Variable cost per unit is £135

Fixed costs per annum is £900,000

**Required:**

**a) C/S ratio, budgeted profit, break-even sales volume and the margin of**

**safety. [10 marks]**

**b) The sales volume required to make a profit of £1,800,000. [5 marks]**

**c) The marketing director suggests the following changes:**

* **Selling price to reduce to £210 per unit**
* **Variable costs per unit to reduce by 20%.**
* **Fixed costs to increase by 3%**
* **Sell 28,000 units.**

**Calculate the profit, breakeven point and margin of safety for**

**this strategy.**

**Comment on this strategy. [10 marks]**

**d) What limitations apply in the above analysis. [5 marks]**

**Question 3**.

The latest financials [in £000s] of KP Ltd are provided below.

**Income statements [in £000]**

|  |  |  |
| --- | --- | --- |
|  | 2021 | 2022 |
| Sales | 80 | 120 |
| Gross profit | 20 | 24 |
| Profit before tax | 10 | 15 |

**SOFP [in £000s]**

|  |  |  |
| --- | --- | --- |
|  | 2021 | 2022 |
| Current assets |  |  |
| * Inventory | 15 | 17.5 |
| * Receivables | 25 | 20 |
| * Bank | 4 | 2 |
| * Cash | 1 | 0.5 |
| Payables | 10 | 11 |
| Other current liabilities | 8 | 16 |

**a) Calculate the following ratios for both years [14 marks]**

* **Gross profit ratio**
* **Net profit ratio**
* **Inventory holding in days**
* **Receivables ratio in days**
* **Payables ratio in days**
* **Current ratio**
* **Quick ratio**

**b) Comment on the performance of the company over the two years using the above ratios [16 marks]**

**Question 4**

M plc seeks your advice on a new investment to produce and sell a new product.

The following five-year sales forecasts relate to it.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 | 5 |
| Sales volume (units) | 10,000 | 12,000 | 15,000 | 16,000 | 11,000 |

Additional information for the new investment:

* New machinery costing £140,000 (year 0) will be required immediately.
* The product’s selling price and variable costs are expected to be £150 per unit and £130 per unit respectively over the 5 years.
* Fixed costs per annum specific to this investment potential is estimated to be £75,000 over the investment period. This incudes depreciation of £10,000 per annum for the new machinery.
* M plc’s cost of capital is 10 % and the payback required for the investment is 3 years.
* Discount factors @ 10 % are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 | 5 |
| Discount factors @ 10 % | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 |

**Required for the above investment proposal:**

**a) The relevant annual profit and cash flows for the proposal. [7 marks]**

**b) Accounting rate of return, payback and Net Present Value. [8 marks]**

**c) Advice the company using the measures in (b). [6 marks]**

**d) State five other factors that require consideration before a final decision is**

**made.** **[5 marks]**

**e) Explain the technique IRR. Outline its advantages. [4 marks]**

**END OF EXAMINATION PAPER**

**[You should have answered Question 1 and any 2 other questions.]**

**Format for Financial statements – for reference purpose only. Do Not use them to write your answers.**

**Name of company**

**Income statement for the y/e………..**

|  |  |  |
| --- | --- | --- |
| Sales |  |  |
| **Cost of sales** |  |  |
| Opening inventory |  |  |
| Purchases |  |  |
| Closing inventory |  |  |
| **GP** |  |  |
| **Expenses** |  |  |
|  |  |  |
|  |  |  |
| **PBT** |  |  |
| CT |  |  |
| **PAT** |  |  |
| Dividends -- Interim  -- Final |  |  |
| Retained profit for the year |  |  |
| Retained profit b/f |  |  |
| Retained profit c/f |  |  |

**Name of company**

**SOFP as at……….**

|  |  |  |  |
| --- | --- | --- | --- |
| **Non - current assets** | **Cost** | **Accumulated**  **Depreciation** | **NBV** |
|  |  |  |  |
|  |  |  |  |
| **Current assets** |  |  |  |
| Inventory |  |  |  |
| Receivables |  |  |  |
| Prepayments |  |  |  |
| Bank |  |  |  |
| Cash |  |  |  |
| **Total assets** |  |  |  |
|  |  |  |  |
| **Share capital** |  |  |  |
|  |  |  |  |
| **Reserves** |  |  |  |
| Retained profits |  |  |  |
| **Shareholders’ funds** |  |  |  |
|  |  |  |  |
| **Non - current liabilities** |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Current liabilities** |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Shareholders’ funds & liabilities** |  |  |  |

**Financial Ratios & Formulae**

|  |  |
| --- | --- |
| Ratio | Formula |
| Gross profit ratio (%) | Gross profit / Sales x 100 |
| Net profit ratio (%) | Net profit / Sales x 100 |
| Current ratio | Current assets / Current liabilities |
| Acid test / Quick ratio | (Current assets – Inventory) /Current liabilities |
| Inventory holding (days) | Closing inventory / Cost of sales x 365 days |
| Receivables ratio (days) | Receivables / Sales x 365 days |
| Payables ratio (days) | Payables / Cost of sales x 365 |