**ACCOUNTING FOR BUSINESS**

**MOCK EXAM: ANSWER QUESTION 1 AND ANY TWO OTHER QUESTIONS**

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

**Question** 1

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

|  |  |  |
| --- | --- | --- |
| Inventory as at 1st January 2021 | 250 |  |
| Purchases and Sales | 600 | 1200 |
| Selling expenses | 20 |  |
| Receivables and payables | 90 | 75 |
| Distribution costs | 30 |  |
| Rent & rates | 30 |  |
| Insurance | 9 |  |
| Salaries & wages | 90 |  |
| Directors’ remuneration | 45 |  |
| Advertising | 20 |  |
| Energy costs | 25 |  |
| Audit fee | 10 |  |
| Bad debt | 3 |  |
| Interest on bank loan | 8 |  |
| 8% Long term bank loan |  | 100 |
| Debenture interest | 10 |  |
| 12% Debentures |  | 100 |
| Share premium |  | 100 |
| Retained profits |  | 90 |
| Premises at cost | 650 |  |
| Vehicles at cost | 130 |  |
| Vehicles – accumulated depreciation |  | 30 |
| Fixtures & fittings at cost | 100 |  |
| Fixtures & fittings – accumulated depreciation |  | 60 |
| £1 Ordinary shares |  | 400 |
| Cash | 3 |  |
| Bank | 7 |  |
| Interim ordinary dividend | 25 |  |
| Totals | 2155 | 2155 |

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

* Inventory was valued at £150,000.
* Prepayments for: Rent £4000; selling expenses £2000; Advertising £3000
* Accruals for: Insurance £1000; Rates £1000; Energy costs £1000; Audit fee £2000
* The vehicles to be depreciated by 25% on reducing balance
* The fixtures & fittings to be depreciated by 30% on straight line.
* The directors wish to provide £60,000 for taxation.
* The directors propose a final ordinary dividend of 9p per share.

**Required:**

**a) Income Statement for the year ended 31/12/2021. [20 marks]**

**b) Statement of Financial Position as at 31/12/2021. [20 marks]**

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

**Question 2**.

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

|  |  |  |
| --- | --- | --- |
| Year ended 31st July | 2022 | 2021 |
| Sales | 150 | 130 |
| Gross profit | 70 | 60 |
| Profit before tax | 20 | 22 |

|  |  |  |
| --- | --- | --- |
| SOFP as at 31st July | 2022 | 2021 |
| Inventory | 22 | 18 |
| Receivables | 18 | 20 |
| Bank and cash | 3 | 4 |
| Payables | 16 | 13 |
| Other current liabilities | 12 | 12 |

**Required:**

**a) Calculate profitability, liquidity and efficiency ratios for both years.**

**[14 marks]**

**b) Comment on the financial performance of B Ltd over the 2 years using the ratios you have calculated. [16 marks]**

**Question 3**.

C Ltd is planning forecasts for one of its products.

Budgeted production and sales are 35,000 units.

Maximum capacity is 50,000 units.

Selling price per unit is £25

Variable cost per unit is £15

Fixed costs per annum is £220,000

**Required:**

**a) Breakeven sales volume and sales revenue. [8 marks]**

**b) Budgeted profit. [5 marks]**

**c) Margin of safety. [2 marks]**

**d) The sales volume and sales revenue required to make a profit of £100,000.**

**e) If the selling price reduces to £23 per unit, variable costs reduce by 20%, fixed costs increase by 5% and 40,000 units can be sold, calculate the budgeted profit, breakeven point and the margin of safety. Comment briefly on the results. [10 marks]**

**f) State the limitations of the above analysis. [5 marks]**

**Question 4**

D plc seeks your advice on a new product investment.

Information on the new product investment:

* New machinery costing £150,000 (year 0) will be required immediately.
* Product’s selling price is £35 per unit and its variable costs are £25 per unit over the 5 years.
* Fixed costs per for this investment potential is estimated to be £100,000 per annum over the investment period. This incudes depreciation of £30,000 per annum for the new machinery.
* The following five-year sales forecasts relate to the new product.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 | 5 |
| Sales volume (units) | 12,000 | 14,000 | 16,000 | 15,000 | 11,000 |

* D plc’s cost of capital is 10 % and the payback required for the investment is 3 years. Accounting rate of return required for the investment is 20%
* 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) What is IRR and what are its advantages. [4 marks]**

**END OF MOCK EXAMINATION PAPER**

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