**AFB MOCK EXAM**

**ANSWER QUESTION 1 [for 40 marks] from Section A and any 2 questions from Section B [30 marks each]**

**Section A**

**Question 1:**

The following trial balance is for ME1 Ltd. for the year ended 30/06/2022:

|  |  |  |
| --- | --- | --- |
|  | £000 | £000 |
| Inventory | 70 |  |
| Purchases & Sales | 1200 | 1934 |
| Rates & insurance | 21 |  |
| Administration expenses | 40 |  |
| Selling expenses | 56 |  |
| Wages & salaries | 170 |  |
| Utilities | 32 |  |
| Audit fee | 12 |  |
| Bad debt | 3 |  |
| Directors remuneration | 50 |  |
| Interest on bank loan | 9 |  |
| Debenture interest | 6 |  |
| Premises at cost | 600 |  |
| Motor vehicles at cost | 130 |  |
| Fittings at cost | 120 |  |
| Motor vehicles – accumulated depreciation |  | 30 |
| Fittings – accumulated depreciation |  | 40 |
| Cash | 1 |  |
| Bank | 5 |  |
| Receivable & payables | 100 | 60 |
| £1 Ordinary shares |  | 250 |
| 6% Long term bank loan |  | 150 |
| 7% Debentures |  | 100 |
| Interim dividends paid | 15 |  |
| Retained profit |  | 76 |
| Totals | 2640 | 2640 |

Additional information as at 30/06/ 2022:

* Inventory was valued at 90,000.
* Prepaid rates - £3,000; selling expenses prepaid £6000.
* Accruals for: Wages accrued £1,000; audit fee £2000.
* Motor vehicles to be depreciated by 25% on reducing balance basis.
* Fittings to be depreciated by 20% on straight line basis
* The directors wish to provide £100,000 for taxation.
* The directors propose a dividend of 20p per share.

**Required:**

**a) Income statement for the year ended 30/06/2022 [20 marks]**

**b) Statement of financial position as at 30/06/2022 [20 marks]**

**Section B**

**Question 2**

The following information relate to 2 mutually exclusive projects, A and B.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **0** | **1** | **2** | **3** | **4** | **5** | **6** |
| **Project A (net cash flows in £000)** | **(900)** | **250** | **350** | **400** | **300** | **325** | **250** |
| **Project B (net cash flows in £000)** | **(1000)** | **300** | **300** | **300** | **300** | **300** | **--** |

Residual value of project A’s assets is expected to realise £150,000 in year 6

The company requires a payback of 3 years and its cost of capital is 10%.

Discount & annuity factors @ 10%:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 | 5 | 6 |
| Discount factors | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 | 0.564 |
| Annuity factors | 0.909 | 1.736 | 2.487 | 3.170 | 3.791 | 4.355 |

**Required:**

**a) Payback period and NPV for both projects A and B. [14 marks]**

**b) Rank the projects for both methods. [4 marks]**

**c) Which project would you recommend and explain the basis of your**

**recommendation. [8 marks]**

**d) List 4 other factors that may require consideration. [4 marks]**

**Question 3**

ME2 Ltd is planning to introduce a new coffee machine. Details are:

|  |  |
| --- | --- |
| Variable costs per unit | £60 |
| Annual fixed costs | £9,000,000 |
| Selling price per unit | £100 |
| Budgeted production and sales | 400,000 units |
| Maximum output (relevant range) | 1,000,000 units |

**Required:**

**a) Budgeted profit. [4 marks]**

**b) Margin of safety [3 marks]**

**c) Calculate the sales volume if profit of £8,000,000 can be made by spending**

**an additional £500,000 on promotion. [6 marks]**

**d) Another strategy with the following changes for the new product is**

**being considered:**

* **Spend an additional £5 per unit on improving the packaging.**
* **Selling price to increase by 8% per unit**
* **Sell 500,000 units.**

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

**Comment briefly on this strategy compared to the original budget**

**in (a). [12 marks]**

**e) State the assumptions that affect the above calculations. [5 marks]**

**Question 3**

You are provided the following for ME3 plc:

**Income statement (extracts) for the year ended 31/12/2022 (in £000s)**

Sales revenue 25,500

Cost of sales 14,800

Expenses 5,450

**Statement of financial position as at 31/12/2022 (in £000s)**

|  |  |
| --- | --- |
| Current assets |  |
| Inventory | 3,600 |
| Trade receivables | 1,200 |
| Bank & cash | 3,200 |
|  |  |
| Current liabilities |  |
| Trade payables | 1,200 |
| Taxation | 3,000 |
| Accruals | 1,000 |

Key financial indicators are available ME3 plc.’s industry for 2022:

|  |  |
| --- | --- |
| Gross profit ratio | 40% |
| Net profit ratio | 18% |
| Current ratio | 2.15:1 |
| Acid test /Quick ratio | 1.1:1 |
| Receivables ratio (days) | 42 |
| Inventory holding (days) | 80 |
| Payables ratio (days) | 32 |

**Required:**

**a) Calculate the equivalent ratios (as above) for ME3 plc. [14 marks]**

**b) Critically discuss the financial performance of ME3 plc compared to that of the industry. [16 marks]**

**END OF EXAMINATION PAPER**

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

**Format for Financial statements**

**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 |