**MOCK EXAM: ACCOUNTING FOR BUSINESS**

**ATTEMPT QUESTION 1 AND ANY TWO OTHER QUESTIONS**

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

**Question 1**

The trial balance below is for AB plc as at 31/12/2022

|  |  |  |
| --- | --- | --- |
| £1 Ordinary share capital |  | 9000 |
| Retained profits |  | 3000 |
| Purchases & sales | 21000 | 25000 |
| Opening inventory | 4000 |  |
| Buildings at cost | 2500 |  |
| Buildings – accumulated depreciation |  | 900 |
| Freehold land at cost | 7000 |  |
| Equipment at cost | 1500 |  |
| Equipment – accumulated depreciation |  | 500 |
| Cash | 4 |  |
| Bank | 6 |  |
| Audit fee | 100 |  |
| Bad debt | 20 |  |
| Directors’ remuneration | 200 |  |
| Salaries and wages | 300 |  |
| Rates & insurance | 700 |  |
| Selling & distribution expenses | 1180 |  |
| Debenture interest paid | 22 |  |
| Interest on bank loan | 10 |  |
| Interim ordinary dividend paid | 320 |  |
| Miscellaneous expenses | 38 |  |
| 5% Debentures |  | 500 |
| 2.5% Long term bank loan |  | 400 |
| Receivables & payables | 1100 | 700 |
| Totals | 40000 | 40000 |

**Additional information as at 31/12/2022**:

* Inventory valued at £5,000,000.
* Accruals for: selling expenses £20,000, salaries £5,000 and audit fee £10,000
* Prepayments for rates - £50,000.
* Depreciation of buildings - 5% on straight line
* Depreciation of equipment - 20% on reducing balance basis.
* The directors wish to provide £400,000 for taxation.
* The directors propose a final ordinary dividend of 12p per share.

**Required:**

**(a) Income Statement for the year ended 31/12/2022. [18 marks]**

**(b) Statement of Financial Position as at 31/12/2022. [18 marks]**

**Question 2**

The following are relevant to a new product launch.

Selling price per unit £150

Variable cost per unit. £50

Incremental annual fixed costs £2,000,000

Budgeted production and sales are 50,000 units.

Maximum capacity is 80,000 units.

**Required:**

**(a) The budgeted profit and margin of safety [10 marks]**

**(b) Sales volume required to make a profit of £1,200,000. [6 marks]**

**(d) A proposal is being considered to supply 20,000 units**

**per annum of the same product with some modifications**

**which will increase variable costs by £2 per unit.**

**Delivery costs to the retailer is estimated to be £30,000**

**per annum.**

**(i) The minimum price per unit to the retailer. [6 marks]**

**(ii) the selling price per unit for the above proposal if**

**a profit of £5 per unit is required. [3 marks]**

**Assume there is excess capacity for the next one year**

**to consider the proposal.**

**Question 3**

A new investment is being considered by CD plc.

This requires an initial investment (in year 0) of new equipment costing £2,000,000. Its scrap value in year 5 is expected to be £500,000

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 | 5 |
| Sales volume (units) | 120,000 | 130,000 | 120,000 | 100,000 | 80,000 |

Contribution is £11 per unit for all 5 years.

Incremental fixed costs are £120,000 for each of the 5 years.

CD requires a payback of 2.25 years for this investment and the cost of capital for such investments is 10%.

Discount factors @ 10% are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 | 5 |
|  | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 |

**Required:**

**(a) The payback and NPV of the investment. [12 marks]**

**(b) Advice AB plc on the financial viability of the investment and**

**explain the basis of your advice. [5 marks]**

**(c) What other factors require consideration? [5 marks]**

**Question 4**

The financials for BC plc are summarised below:

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

Sales revenue 1,650

Cost of sales (1,070)

Expenses (110)

**SOFP (extracts) as at 31/12/2022 (in £000s)**

|  |  |
| --- | --- |
| Inventory | 250 |
| Trade receivables | 300 |
| Prepayments | 5 |
| Bank & cash | 10 |
| Trade payables | 80 |

Key financial indicators / ratios for BC plc for 2021 are:

|  |  |
| --- | --- |
| Gross profit ratio | 30% |
| Net profit ratio | 20% |
| Current ratio | 1.8:1 |
| Acid test | 1.1:1 |
| Receivables ratio (days) | 30 |
| Payables ratio (days) | 40 |
| Inventory holding (days) | 60 |

**Required:**

**a) Calculate equivalent ratios for BC plc for 2022. [14 marks]**

**b) Discuss a comparative performance of BC plc using the ratios**

**that you have calculated for 2022. [16 marks]**

**END OF MOCK EXAMINATION PAPER**

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