**Question 1**

**The following trial balance is for G plc as at 31/12/2022.**

**£000 £000**

|  |  |  |
| --- | --- | --- |
| £1 Ordinary share capital |  | 10000 |
| 6% Debentures |  | 2000 |
| 3.5% Long term bank loan |  | 600 |
| Retained profits |  | 3900 |
| Purchases & sales | 25000 | 30000 |
| Receivables & payables | 1050 | 1000 |
| Opening inventory | 5000 |  |
| Buildings at cost | 3000 |  |
| Buildings – accumulated depreciation |  | 1000 |
| Freehold land at cost | 10000 |  |
| Vehicles at cost | 2000 |  |
| Vehicles – accumulated depreciation |  | 500 |
| Cash | 2 |  |
| Bank | 8 |  |
| Audit fee | 150 |  |
| Bad debt | 10 |  |
| Directors’ remuneration | 300 |  |
| Salaries & wages | 400 |  |
| Rates & insurance | 520 |  |
| Administration expenses | 600 |  |
| Selling expenses | 482 |  |
| Debenture interest paid | 90 |  |
| Interest on bank loan | 21 |  |
| Interim ordinary dividend paid | 320 |  |
| Miscellaneous expenses | 47 |  |
| Totals | 49000 | 49000 |

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

* Inventory valued at £7,000,000.
* Accruals: wages: £100,000, audit fee £50,000 and administration expenses £200,000.
* Insurance prepaid - £120,000.
* Depreciation of buildings - 5% on straight line
* Depreciation of vehicles - 25% on reducing balance basis.
* The directors wish to £500 for taxation.
* The directors propose a final ordinary dividend of 14p 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]**

**Answers**

**(a)**

**G plc**

**Income Statement for the y/e 31/12/2022 [in £000s]**

|  |  |  |
| --- | --- | --- |
| Sales |  | 30000 |
| Cost of sales |  |  |
| Opening inventory | 5000 |  |
| Purchases | 25000 |  |
| Closing inventory | [7000] | [23000] |
| GP |  | 7000 |
| Expenses |  |  |
| Salaries & wages [400 + 100] | 500 |  |
| Audit fee [150 + 50] | 200 |  |
| Administration expenses [600 + 200] | 800 |  |
| Rates & insurance [520 – 120] | 400 |  |
| Depreciation of buildings [3000 x 0.05] | 150 |  |
| Depreciation of vehicles [2000 – 500] x 0.25 | 375 |  |
| Bad debt | 10 |  |
| Directors’ remuneration | 300 |  |
| Selling expenses | 482 |  |
| Debenture interest [90 + 30] | 120 |  |
| Interest on bank loan | 21 |  |
| Miscellaneous expenses | 47 | [3405] |
| PBT |  | 3595 |
| CT |  | [500] |
| PAT |  | 3095 |
| Dividends – Interim paid  -- Final proposed [10000 x £0.14] | 320  1400 | [1720] |
| Retained profit for the year |  | 1375 |
| Retained profit b/f |  | 3900 |
| Retained profit c/f |  | 5275 |

**b)**

**G plc**

**SOFP as at 31/12/2022 [in £000s]**

|  |  |  |  |
| --- | --- | --- | --- |
| Non-current assets | Cost | Accumulated  Depreciation | NBV |
| Buildings | 3000 | 1000 + 150 = 1150 | 1850 |
| Freehold land | 10000 | --- | 10000 |
| Vehicles | 2000 | 500 + 375 = 875 | 1125 |
|  | 15000 | 2025 | 12975 |
| Current assets |  |  |  |
| Inventory | 7000 |  |  |
| Receivables | 1050 |  |  |
| Prepayment | 120 |  |  |
| Bank | 8 |  |  |
| Cash | 2 |  | 8180 |
| Total assets |  |  | 21155 |
|  |  |  |  |
| Share capital |  |  |  |
| £1 Ordinary shares |  |  | 10000 |
| Reserves |  |  |  |
| Retained profit |  |  | 5275 |
| Shareholders’ funds |  |  | 15275 |
| Non-current liabilities |  |  |  |
| 6% Debentures | 2000 |  |  |
| 3.5% Long term bank loan | 600 |  | 2600 |
| Current liabilities |  |  |  |
| Accruals [100 + 50 + 200 + 30] | 380 |  |  |
| Payables | 1000 |  |  |
| CT | 500 |  |  |
| Proposed dividends | 1400 |  | 3280 |
| Shareholders’ funds & liabilities |  |  | 21155 |

**Question 2**

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]**

**Answers**

**a)**

**Equivalent ratios for BC plc for 2022**.

GP = 1650 – 1070 = 580

NP = 580 – 110 = 470

GP ratio = [GP / Sales] x 100 = [580 / 1650] x 100 = 35.15%

NP ratio = [NP/Sales] x 100 = [470 / 1650] x 100 = 28.48%

Current assets = 250 + 300 + 5 + 10 = 565

Current liabilities = 80

Current ratio = Current assets / Current liabilities

= 565 / 80 = 7.06 or 7.06:1 or 7.06 x

Quick ratio = [Current assets – Inventory] / Current liabilities

= [565 – 250] / 80 = 315 /80 = 3.94 or 3.94:1 or 3.94x

Receivables ratio = [Receivables / Sales] x 365

= [300 / 1650] x 365 = 66.36 = 66 days

Payables ratio = [Payables / Cost of sales] x 365

= [80 / 1070] x 365 = 27.29 = 27 days

Inventory ratio = [Inventory / Cost of sales] x 365

= [250 / 1070] x 365 = 85.28 = 85 days

**b)**

**Comparative performance of BC plc using the ratios for 2021 and 2022.**

|  |  |  |  |
| --- | --- | --- | --- |
| Year | 2021 | 2022 | Brief comment |
| Gross profit ratio | 30% | 35.15% | Improved |
| Net profit ratio | 20% | 28.48% | Improved |
| Current ratio [2:1] | 1.8:1 | 7.06:1 | Too high |
| Acid test [1:1] | 1.1:1 | 3.94:1 | Too high |
| Receivables ratio (days) | 30 | 66 | Requires attention |
| Payables ratio (days) | 40 | 27 | Improved? |
| Inventory holding (days) | 60 | 85 | Requires attention |

Commentary

Profitability

Both the NP and GP ratios have improved in 2022.

GP ratio may have improved due to an increase in the selling prices or decrease in the purchase costs or both.

NP ratio has also increased and this may be due to better management of expenses.

Liquidity

Both the liquidity ratios have increased [worsened] compared to 2021 and the norm. So, both require management attention

Efficiency / Working capital management

Receivables ratio has more than doubled from 30 days in 2021 to 66 days in 2022. Is this due to a change in the terms offered to customers? If this is not the case then it requires investigation and action taken to correct this. Otherwise this can lead to an increase in bad and doubtful debts leading to a decrease in both profits and cash flows.

Payables ratio appears to show an improvement but more information [i.e. credit policy offered by the company’s suppliers] is needed to be critically on this ratio.

Inventory holding has increased from 60 days in 2021 to 85 days in 2022. This appears to have worsened. This too requires investigation and action take to improve it. Are there any obsolete or slow-moving inventory? This may require urgent attention to reduce/eliminate them. Are inventory levels too high due to wrong purchasing policies?

Conclusions/recommendations/summary

Improving both the inventory holding ratio and the receivables ratio may help to reduce both current and quick assets. This may in turn improve both the liquidity ratios and reduce them down to the norms and lead to a further improvement in profitability.