**Question 1**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | The following shows the trial balance for R1 Ltd. | | |  |  |
|  |  |  |  |  |  |
|  | **Trial balance at 30th September 2022**   |  |  |  | | --- | --- | --- | |  | **Dr** | **Cr** | |  | **£000** | **£000** | | Sales and purchases | 15,700 | 20,500 | | Opening inventory | 2,000 |  | | Receivables and payables | 1,300 | 900 | | Administration expenses | 600 |  | | Selling costs | 690 |  | | Audit fee | 50 |  | | Bad debt | 40 |  | | Directors’ remuneration | 300 |  | | Interest paid on long term bank loan | 30 |  | | Freehold land at cost | 4,700 |  | | Buildings at cost | 2,900 |  | | Buildings – accumulated depreciation |  | 400 | | Fixtures & fittings- at cost | 1,400 |  | | Fixtures & fittings – accumulated depreciation |  | 200 | | Equipment at cost | 2,300 |  | | Equipment – accumulated depreciation |  | 300 | | Salaries and wages | 900 |  | | Cash | 10 |  | | Bank | 120 |  | | £1 Ordinary share capital |  | 8,000 | | 5% Long term bank loan |  | 600 | | Retained profits |  | 1,300 | | 8% Debentures |  | 1,000 | | Interim ordinary dividend paid | 100 |  | | Debenture interest paid | 60 |  | |  | 33,200 | 33,200 |   **Notes at 30th September 2022:**   * Inventory was valued at £2,500,000 * Administration expenses prepaid £100,000 * Wages accrued £20,000 and audit fee owed £30,000 * Fixtures and fittings to be depreciated by 20% on straight line * Equipment to be depreciated by 20% on reducing balance basis * Buildings to be depreciated by 5% on straight line * The directors want to provide £200,000 for taxation * The directors propose a final ordinary dividend of 5p per share | | |  |  |
|  |  |  |  |  |  |
|  | Required:  (a) | Prepare the income statement for the year ended 30th September 2022. | |  | **[20 marks]** |
|  | (b) | Prepare the statement of financial position at 30th September 2022. | |  | **[20 marks]** |
|  |  |  |  |  |  |

**Question 2**

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

Project A requires an initial investment [in year 0] of £800,000 and produces an annuity of £280,000 p.a. for 6 years.

Project B has the following cashflows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 0 | 1 | 2 | 3 | 4 | 5 |
| Project B (net cash flows in £000) | (850) | 460 | 500 | 450 | 400 | 300 |

Residual value of project B’s assets is expected to realise £100,000 in year 5

The company requires a payback of 2 years and its cost of capital is 10%.

Discount factors @ 10%:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Discount factors | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 | 0.564 | 0.513 |

**Required:**

(a) Payback period and NPV for the 2 projects [14 marks]

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

(c) Which project would you recommend. Explain the basis of your recommendation. [8 marks]

(d) What other factors may require consideration before a final decision is made. [4 marks]