

Accounting and Finance

Time allowed: NINETY MINUTES

YOU SHOULD ANSWER ONLY TWO QUESTIONS from the four questions, all of which carry equal marks

Show all workings clearly.

State and explain any assumptions which you make.

Non-programmable calculators may be used.

QUESTION 1 Answer ALL Parts

Below are summarised financial statements for a low cost airline carrier for the years ended 31 March 20X1 and 20X0.

<u>Income statement for the year ending:</u>	20X1	20X0
	€M	€M
Turnover	3,630	2,988
Cost of sales	<u>3,142</u>	<u>2,586</u>
Operating profit	488	402
Finance income	27	24
Finance costs	<u>94</u>	<u>85</u>
Profit before tax	421	341
Tax on profit on ordinary activities	<u>46</u>	<u>36</u>
Profit on ordinary activities after taxation	<u>375</u>	<u>305</u>
<u>Balance sheet as at 31 March:</u>	20X1	20X0
	€M	€M
Non-current assets		
Tangible	5,118	4,500
Current assets		
Inventories	3	3
Trade and other receivables	50	44
Other	1,397	1,537
Cash and cash equivalents	<u>2,028</u>	<u>1,479</u>
	3,478	3,063
Current liabilities	(1,837)	(1,550)
Non-current liabilities	(3,805)	(3,165)
Net assets	<u>2,954</u>	<u>2,848</u>
Equity shareholders' funds	<u>2,954</u>	<u>2,848</u>

Further information:-

	20X1	20X0
Authorised shares	1,485.7M	1,476.4M
Dividend Paid	€500M	-

Required:

- a. From the above information, calculate financial ratios which you consider most appropriate for assessing the financial position of the low cost airline carrier for 31 March 20X1 and 20X0. You should calculate at least eight ratios, giving the formulae explicitly and showing all relevant calculations.
(16 marks)
- b. Interpret and comment upon the results of your calculations for part (a). Identify what further information you would require to perform this analysis in further depth.
(8 marks)
- c. Briefly discuss the limitations of financial accounting ratio analysis.
(6 marks)

QUESTION 2

The following is a trial balance for Albert Ltd for the year ending 31/12/2018:-

	Dr	Cr
	£	£
Accruals		610
Administration expenses	9,850	
Bank		50
Cars accumulated depreciation to 31/12/2018		1,000
Cars at cost	5,000	
Creditors		3,640
Bank Loan repayable on 31/12/2040		3,120
Production Salaries	560	
Interest paid	230	
Land and buildings at valuation 31/12/2017	9,890	
Plant and equipment accumulated depreciation to 31/12/2017		1,000
Plant and equipment at cost	5,000	
Prepayments	190	
Purchases	6,610	
Retained profit as at 31/12/2017		2,055
Revaluation reserve as at 31/12/2017		95
Sales		35,125
Distribution expenses	2,685	
Share capital (£1.00 ordinary shares)		5,130
Stock 31/12/2017	10,410	
Trade receivables	1,400	
	51,825	51,825

It has come to light that the following additional information has not been taken into account in the preparation of this trial balance:-

- i. The company issued for cash 10,000 new shares for £6.00 per share on 31/12/2018, receiving the full issue proceeds on that day. Included in the £6.00 per share was a £5.00 share premium.
- ii. After a final stock take on 31/12/2018, stock was valued at the lower of cost and net realisable value at £16,000.
- iii. Depreciation is provided on plant and equipment so as to write off the cost on a straight-line basis over a period of 20 years. This depreciation is charged to cost of sales. You may assume that all the equipment has a zero residual value, and that no item of plant or equipment was more than 19 years old on 1/1/2018.

- iv. A market valuation dated 31/12/2018 from a local surveyor has revealed that the land and buildings are worth £9,795. The Directors intend to incorporate this valuation into the financial statements.
- v. One of Albert Ltd's customers has a very poor cash flow and owes them £1,250. As the accountant is prudent she has decided to take a bad debt provision to cover the whole of this debt. Any bad debts or bad debt provisions are charged to administration expenses.
- vi. The last electricity bill that had been received and paid was for £300, and covered the three months to the end of November 2018. Electricity bills are allocated 75% to administration expenses and 25% to cost of sales.
- vii. On 31/12/2018 the company took out an additional debenture loan for £20,000 which would be repayable on 31/12/2040.
- viii. A rental invoice of £3,000 covering the period 1 October 2018 to 31 March 2019 was paid and coded to administration expenses on 1 November 2018.
- ix. The tax charge for the year is estimated to be £7,000.

Required:

- a. Using double entry book-keeping record the effects of the items i. to ix. above. **(12 marks)**
- b. Incorporating the information given in the trial balance and the effects of items i) to ix), prepare an income statement for the year ended 31/12/2018, together with a balance sheet as at that date. **(18 marks)**

QUESTION 3

Harries Ltd started business on 1 January 2019 and its year ended 31 December 2019. Harries Ltd entered into the following transactions during the year.

- i. Harries Ltd received funds for share capital of £300,000 on 1 January 2019
- ii. Mrs. Jones loaned the company £500,000 on 1 January 2019 at 10% per annum. Interest was to be paid six monthly in arrears on the 1 July 2019 and 1 January 2020.
- iii. Harries Ltd paid £5,000 in cash for advertising in 'The Local Rag' on 1 July 2019.
- iv. During the year Harries Ltd purchased in total 10,000 units of materials at £5 per unit. One unit is needed to manufacture one finished good. Harries Ltd manufactured all of these units to produce 10,000 units of finished goods by 31 December 2019.
- v. Total heating and lighting costs paid in cash for the year were £25,000
- vi. It was estimated that further heating and lighting costs of £10,000 were incurred within the year, but were still unpaid as at 31 December 2019
- vii. 7,000 finished goods units were sold to customers at £30 each on a credit basis
- viii. As at 31 December 2019 Harries Ltd had received £150,000 in cash for the sale of the finished goods in (vii) above.
- ix. A further 2,000 finished goods were sold to customers at £80 each as cash sales.
- x. Rent on the premises of £96,000 was paid for twenty-four months from 1 January 2019.
- xi. Salaries and wages were paid for January to November amounting to £66,000 but the December payroll cost of £11,000 had not been paid
- xii. A new piece of machinery was purchased in cash for £24,000 on 1 January 2019 and expected to last for 3 years. Harries Ltd assumes a zero residual value and the company uses the straight line method of depreciation.

- xiii. At the end of the year a stock check was completed. In this check there were 1,000 units of finished stock.

Required:

- a. Present the above transactions in a T account format.
(17 marks)
- b. Prepare a trial balance for Harries Ltd for the year ending 31 December 2019.
(13 marks)

QUESTION 4

To answer question 4, attempt **TWO** of the following (each of the two questions are worth 15 marks, in total 30 marks):

- i. *'The only important financial statement that is of any use or relevance is the income statement'*

With reference to the use and types of other financial statements, do you agree with the statement above? **(15 marks)**

- ii. You have decided to invest in your own portfolio of shares and have been requesting Annual Reports to be sent to you.

- a. Describe what type of information can be found in an Annual Report and state to whom the financial information is addressed. **(6 marks)**
- b. List which other user groups would use this information and describe how three of these user groups could be in potential conflict with you if you decided to invest. **(9 marks)**

- iii. Creating a partnership after being a sole trader can be fraught with difficulty.

- a. Discuss the benefits and disadvantages of changing to a partnership. **(10 marks)**
- b. Discuss the similarities and differences between accounting for a partnership and a limited company. **(5 marks)**

- iv. A balance sheet appears to show what a business is worth as it shows all assets and liabilities. Illustrating your answer with examples discuss whether this is the case. **(15 marks)**

END OF PAPER