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| --- | --- |
|  | **Entrance Examination**  **February 2023** |
| **ACCOUNTING AND FINANCE**  Time allowed: 1.5 hours (90 minutes)  **You should answer only TWO questions from the four questions,  all of which carry equal marks**  Show all working 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 Sun Ltd for the year ended 31st of March 2022 and 31st of March 2021:

**Income Statement**

|  |  |  |
| --- | --- | --- |
| **Income Statement** | **31.3.2022**  **£’000** | **31.3.2021**  **£’000** |
| Revenue | 25,500 | 20,000 |
| Cost of Sales | (12,000) | (11,500) |
|  |  |  |
| Gross Profit | 13,500 | 8,500 |
|  |  |  |
| Distribution Costs | (4,000) | (4,800) |
| Administration expenses | (3,000) | (2,000) |
|  |  |  |
| Profit from Operations | 6,500 | 1,700 |
| Finance Costs | (500) | (600) |
|  |  |  |
| Profit before tax | 6,000 | 1,100 |
|  |  |  |
| Tax | (1,800) | (330) |
|  |  |  |
| Profit for the period | 4,200 | 770 |

**Please Turn Over**

**Question 1 Continued**

Statement of financial position (Balance Sheet)

|  |  |  |
| --- | --- | --- |
| **Non-current assets** | **31.3.2022** | **31.3.2021** |
| Property, Plant and equipment | 18,000 | 28,000 |
|  |  |  |
| **Current assets** |  |  |
| Inventories (Stock) | 3,500 | 2,500 |
| Trade Receivables (Debtors) | 2,500 | 5,000 |
| Cash at Bank | 5,000 | 1,000 |
|  | 11,000 | 8,500 |
| **Total Assets** | **29,000** | **36,500** |
| **LIABILITIES** |  |  |
| **Non-current liabilities** |  |  |
| Bank Loan | 10,000 | 5,000 |
|  |  |  |
| **Current liabilities** |  |  |
| Trade Payables (Creditors) | 1,500 | 3,100 |
| Tax liabilities | 1,200 | 2,300 |
|  | **2,700** | **5,400** |
| **Total Liabilities** | **12,700** | **10,400** |
| **EQUITY** |  |  |
| Share Capital | 10,500 | 12,000 |
| Retained Earnings | 5,800 | 14,100 |
|  |  |  |
| **Total Equity** | **16,300** | **26,100** |
|  |  |  |
| **Total equity and liabilities** | **29,000** | **36,500** |

**Please Turn Over**

**Question 1 Continued**

**Required:**

1. From the above information, calculate financial ratios which you consider most appropriate for assessing the financial position of Sun Ltd for the year ended 31st March 2022 and 2021. You should calculate at least eight ratios, giving the formulae explicitly and showing all relevant calculations.

**(16 marks)**

1. 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)**

1. Briefly discuss the limitations of financial accounting ratio analysis. **(6 marks)**

**End of Question 1 (30 marks)**

**Please Turn Over**

**QUESTION 2 (30 marks)**

The following is a Trial Balance for Flower Ltd a manufacturer of tiles for the year ended 31/12/2022.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  | | --- | --- | --- | |  | Dr | Cr | |  | £ | £ | | Accruals |  | 1,800 | | Administration expenses | 25,500 |  | | Bad debt provision |  | 300 | | Bank | 6,000 |  | | Cars accumulated depreciation to 31/12/2021 |  | 400 | | Cars at cost | 2,000 |  | | Trade payables |  | 7,000 | | Bank Loan repayable on 31/12/2040 |  | 5,000 | | Interest paid | 500 |  | | Land and buildings at valuation 31/12/2021 | 18,000 |  | | Plant and equipment accumulated depreciation to 31/12/2021 |  | 3,000 | | Plant and equipment at cost | 8,000 |  | | Prepayments | 500 |  | | Purchases | 15,000 |  | | Retained profit as at 31/12/2021 |  | 8,000 | | Revaluation reserve as at 31/12/2021 |  | 500 | | Sales |  | 62,000 | | Distribution expenses | 1,500 |  | | Share capital (£1.00 ordinary shares) |  | 8,000 | | Stock 31/12/2021 | 15,000 |  | | Trade receivables | 4,000 |  | |  | 96,000 | 96,000 | |  |  |

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 1,000 new shares for £5.00 per share on 31/12/2022, receiving the full issue proceeds on that day. Included in the £5.00 per share was a £3.00 share premium.

ii. After a final stock take on 31/12/2022, stock was valued at the lower of cost and net realisable value of £18,000.

**PLEASE TURN OVER**

**Question 2 Continued**

iii. Depreciation is provided on plant and equipment so as to write down the cost on a straight-line basis over a period of 10 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 9 years old on 01/01/2022.

iv. Depreciation is provided on cars so as to write down the cost on a straight-line basis over a period of 5 years. This depreciation is charged to distribution expenses. You may assume that all the cars have a zero residual value, and that no car was more than 4 years old on 01/01/2022.

v. The Directors of Flower Ltd wish to reflect the market valuation of their land and buildings. The most recent valuation from a local surveyor shows an amount of £25,000.

vi. Invoices for stationery are included in administration expenses. It is estimated that Flower Ltd uses £50 of stationery per month and the last monthly invoice received was on 30 October 2022.

vii. On 31/12/2022 Flower Ltd took out an additional bank loan of £10,000 to be repaid in December 2040. As yet no accounting transactions have been made.

viii. The annual shop rental invoice of £12,000 was paid on 01/08/2022. The invoice was coded to administration expenses and the rental period commenced on 01/07/2022.

ix. The tax charge is estimated to be £10,000 for the year.

Required:

* 1. Using double entry book-keeping record the effects of the items i. to ix. above.

**(12 marks)**

* 1. Incorporating the information given in the trial balance and the effects of items i) to ix), prepare an income statement for the year ended 31/12/2022, together with a balance sheet as at that date.

(**18 marks)**

**QUESTION 3 (30 marks)**

Davies Ltd started business on 1 January 2022 and its year ended 31 December 2022. Davies Ltd entered into the following transactions during the year.

1. Davies Ltd received funds for share capital of £300,000 on 1 January 2022.
2. Mrs. Daniels loaned the company £500,000 on 1 January 2022 at 10% per annum. Interest was to be paid six monthly in arrears on the 1 July 2022 and 1 January 2023.
3. Davies Ltd paid £5,000 in cash for advertising in ‘The Daily News’ on 1 July 2022.
4. During the year Davies Ltd purchased in total 10,000 units of materials at £5 per unit. One unit is needed to manufacture one finished good. Davies Ltd manufactured all of these units to produce 10,000 units of finished goods by 31 December 2022.
5. Total heating and lighting costs paid in cash for the year were £15,000
6. It was estimated that further heating and lighting costs of £12,000 were incurred within the year, but were still unpaid as at 31 December 2022.
7. 5,000 finished goods units were sold to customers at £40 each on a credit basis
8. As at 31 December 2022 Davies Ltd had received £200,000 in cash for the sale of the finished goods in (vii) above.

1. A further 2,000 finished goods were sold to customers at £80 each as cash sales.
2. Rent on the premises of £72,000 was paid for twenty-four months from 1 January 2022.

1. Salaries and wages were paid for January to November amounting to £80,000 but the December payroll cost of £10,000 had not been paid
2. A new piece of machinery was purchased in cash for £30,000 on 1 January 2022 and expected to last for 3 years. Davies Ltd assumes a zero residual value and the company uses the straight line method of depreciation.

1. At the end of the year a stock check was completed. In this check there were 1,500 units of finished stock.

**Required:**

1. Present the above transactions in a T account format. **(17 marks)**
2. Prepare a trial balance for Davies Ltd for the year ending 31 December 2022.

**(13 marks)**

**QUESTION 4 (30 marks)**

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

**i.**

a. Explain what is meant by the term investment appraisal

**(3 marks)**

1. Explain what the term Net Present Value (NPV) means and discuss how it is used.  **(6 marks)**
2. Explain what the term payback period means and discuss what are the advantages and disadvantages of using the payback period method.

**(6 marks)**

1. You have decided to invest in your own portfolio of shares and have been requesting Annual Reports to be sent to you.
2. Describe what type of information can be found in an Annual Report and state to whom the financial information is addressed. **(6 marks)**
3. 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)**
4. Creating a partnership after being a sole trader can be fraught with difficulty.
   1. Discuss the benefits and disadvantages of changing to a partnership.

**(10 marks)**

* 1. Discuss the similarities and differences between accounting for a partnership and a limited company. **(5 marks)**

1. *‘The only important financial statement that is of any use or relevance is the Balance Sheet….’*

With reference to the use and types of other financial statements, do you agree with the statement above?

**(15 marks)**

**END OF PAPER**