

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 British Airways plc for the years ended 31 December 2017 and 2016:

Income Statement for the years ending 31 December	2017	2016
	£ million	£ million
Turnover	12,226	11,398
Operating expenses	- 10,452	- 9,901
Operating profit/loss	1,774	1,497
Exceptional Item	- 94	- 84
Finance expense	- 106	- 145
Finance income	35	22
Other	135	300
Profit/loss on ordinary activities before taxation	1,744	1,590
Tax on profit on ordinary activities	- 341	- 245
Profit /loss on ordinary activities after taxation	1,403	1,345
Balance sheet as at 31 December	2017	2016
	£ million	£ million
Non-current assets	12,160	12,810
Current assets		
Inventories	131	128
Debtors	766	751
Other	2,665	2,576
Cash	956	886
	4,518	4,341
Current liabilities		
Trade creditors	1,943	2,245
Other liabilities	3,525	3,388
	5,468	5,633
Non-current liabilities	5,236	5,306
Net assets	5,974	6,212
Equity Shareholders' funds	5,974	6,212

Further information:-

	2017	2016
Authorised shares (millions)	2,144	2,144
Dividend Paid (£ millions)	460	350

Required:

a. From the above information, calculate financial ratios which you consider most appropriate for assessing the financial position of British Airways plc as at 31 December 2017 and 2016. 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 Diana Ltd for the year ending 31/12/2017:-

	Dr	Cr
	£	£
Accruals		870
Administration expenses	21,330	
Bad debt provision		130
Bank	670	
Cars accumulated depreciation to 31/12/2017		500
Cars at cost	1,500	
Creditors		5,200
Bank Loan repayable on 31/12/2030		4,670
Production Salaries	800	
Interest paid	330	
Land and buildings at valuation 31/12/2016	14,130	
Plant and equipment accumulated depreciation to 31/12/2016		1,330
Plant and equipment at cost	6,650	
Prepayments	270	
Purchases	9,935	
Retained profit as at 31/12/2016		2,935
Revaluation reserve as at 31/12/2016		135
Sales		50,935
Distribution expenses	1,550	
Share capital (£2.00 ordinary shares)		7,330
Stock 31/12/2016	14,870	
Trade receivables	2,000	
	74,035	74,035

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 3,000 new shares for £5.00 per share on 31/12/2017, receiving the full issue proceeds on that day. Included in the £5.00 per share was a £3.00 share premium.
- ii. At the end of December 2017, the company had a cancelled order. The stock was valued at £750 and was to be sold for £1,500. Diana Ltd has found another customer who has agreed to buy this stock in January 2018 but is only willing to pay £650.

- iii. Depreciation is provided on plant and equipment so as to write off 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 1/1/2017.
- iv. As at 31/12/2017 the market valuation of the land and buildings is £20,000. The Directors intend to incorporate this valuation into the financial statements.
- v. The last electricity bill that had been received and paid was for £100, and was dated for the month of September.
- vi. On 31/12/2017 the company took out an additional debenture loan for £10,000 which would be repayable on 31/12/2025.
- vii. The tax charge for the year is estimated to be £3,500.

Required

- a. Using double entry book-keeping record the effects of the items i. to vii. above.
(12 marks)
- b. Incorporating the information given in the trial balance and the effects of items i) to vii), prepare an income statement for the year ended 31/12/2017, together with a balance sheet as at that date.
(18 marks)

QUESTION 3

George Ltd started business on 1 January 2017 and its year ended 31 December 2017. George Ltd entered into the following transactions during the year.

- i. George Ltd received funds for share capital of £100,000 on 1 January 2017
- ii. Mr. Harris loaned the company £20,000 commencing 1 January 2017 at 5% per annum. Interest was to be paid six monthly in arrears on the 1 July 2017 and 1 January 2018.
- iii. George Ltd paid £3,000 in cash for advertising in 'The Chronicle' on 1 April 2017.
- iv. During the year George Ltd purchased in total 50,000 units of materials at £1 per unit in cash. Five units were needed to manufacture one finished good. George Ltd manufactured all of these units to produce 10,000 units of finished goods by 31 December 2017.
- v. Total heating and lighting costs paid in cash for the year were £6,000
- vi. It was estimated that further heating and lighting costs of £1,000 were incurred within the year, but were still unpaid as at 31 December 2017
- vii. 8,000 finished goods units were sold to customers at £30 each on a credit basis
- viii. As at 31 December 2017 George Ltd had received £200,000 in cash for the sale of the finished goods in (vii.) above.
- ix. A further 1,000 finished goods were sold to customers at £40 each as cash sales.
- x. A lease on the premises of £48,000 was paid in full for two years on 1 January 2017.
- xi. Salaries and wages were paid for January to November amounting to £55,000 but the December payroll cost of £5,000 had not been paid
- xii. A new van was purchased in cash for £8,000 on 1 January 2017 and expected to last for 4 years. George 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 with a valuation of £8 per unit.

Required:

- a) Present the above transactions in a T account format. **(17 marks)**
- b) Prepare a trial balance for George Ltd for the year ending 31 December 2017. **(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) To enable yourself to have more money throughout your forthcoming year of study at university you have decided to invest in some blue chip companies and have started to look at annual reports on-line.

- a. Briefly discuss what is included in a company's annual report. **(3 marks)**
- b. Who does the Auditor address the annual report to? **(1 mark)**
- c. List the seven user groups that are recognised by the IASB **(3 marks)**
- d. From your list above describe how FOUR user groups would use the annual report and discuss the potential conflicts between these uses and the purposes for which published annual reports are produced. **(8 marks)**

(15 marks in total)

- iii) A company can depreciate their non-current assets (fixed assets) in numerous ways.

- a. List and explain two different methods of depreciation that a company could choose to implement. **(6 marks)**
- b. Using the two methods that you have chosen in part a. above, illustrate how different depreciation methods can impact both the balance sheet and the profit of a company. **(9 marks)**

(15 marks in total)

- iv) Profitable firms have been known to go bankrupt, whilst firms making losses have been known to have considerable cash surpluses. Explain the reasons for this apparent anomaly.

(15 marks)