

## **ACCOUNTING AND FINANCE**

Time allowed: 1.5 hours (90 minutes)

**You should answer all questions (Three in total)**

**Question one = 50 marks**  
**Question two = 30 marks**  
**Question three = 20 marks**  
**Total = 100 marks**

Show all working clearly.  
State and explain any assumptions which you make.  
Non-programmable calculators may be used.

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## Question 1 Answer ALL Parts

Below are summarised financial statements for Vine Ltd for the year ended 31<sup>st</sup> of March 2024 and 31<sup>st</sup> of March 2023:

### Income Statement

Income Statement	31.3.2024 £'000	31.3.2023 £'000
Revenue	25,500	20,000
Cost of Sales	<u>(12,000)</u>	<u>(11,500)</u>
Gross Profit	13,500	8,500
Distribution Costs	(4,000)	(4,800)
Administration expenses	<u>(3,000)</u>	<u>(2,000)</u>
Profit from Operations	6,500	1,700
Finance Costs	<u>(500)</u>	<u>(600)</u>
Profit before tax	<u>6,000</u>	<u>1,100</u>
Tax	<u>(1,800)</u>	<u>(330)</u>
Profit for the period	4,200	770

**Please Turn Over**

## Question 1 Continued

### Statement of financial position (Balance Sheet)

	<b>31.3.2024</b>	<b>31.3.2023</b>
<b>Non-current assets</b>		
Property, Plant and equipment	<u>18,000</u>	<u>28,000</u>
<b>Current assets</b>		
Inventories (Stock)	3,500	2,500
Trade Receivables (Debtors)	2,500	5,000
Cash at Bank	<u>5,000</u>	<u>1,000</u>
	<u>11,000</u>	<u>8,500</u>
<b>Total Assets</b>	<b>29,000</b>	<b>36,500</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Bank Loan	<u>10,000</u>	<u>5,000</u>
<b>Current liabilities</b>		
Trade Payables (Creditors)	1,500	3,100
Tax liabilities	<u>1,200</u>	<u>2,300</u>
	<u>2,700</u>	<u>5,400</u>
<b>Total Liabilities</b>	<b><u>12,700</u></b>	<b><u>10,400</u></b>
<b>EQUITY</b>		
Share Capital	10,500	12,000
Retained Earnings	5,800	14,100
<b>Total Equity</b>	<b><u>16,300</u></b>	<b><u>26,100</u></b>
<b>Total equity and liabilities</b>	<b>29,000</b>	<b>36,500</b>

Please Turn Over

## Question 1 Continued

### **Required:**

a) From the above information, calculate financial ratios which you consider most appropriate for assessing the financial position of Vine Ltd for the year ended 31<sup>st</sup> March 2024 and 2023. You should calculate at least eight ratios, giving the formulae explicitly and showing all relevant calculations.

**(30 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.

**(10 marks)**

c) Briefly discuss the limitations of financial accounting ratio analysis.

**(10 marks)**

**End of Question 1 (50 marks)**

**Please Turn Over**

## QUESTION 2 (30 marks)

The data in the table below shows the expected financial outcomes of an investment into new equipment.

Year	Annual inflows (£'000)	Annual outflows (£'000)	Net flow (£'000)	Discount factor rate to calculate NPV (5%)
0	0	50	(50)	1.00
1	30	17	13	0.95
2	40	12	28	0.91
3	40	13	27	0.86

Required:

Answer the following questions and clearly show your workings:

- Based on the data included in the table above, calculate the payback period of the investment. **(6 marks)**
- Based on the data included in the table above, calculate the Net Present Value (NPV) of the investment. **(8 marks)**
- Comment on your results for part (a) and (b) above. **(8 marks)**
- Explain what the term Net Present Value (NPV) means and discuss how it is used. **(8 marks)**

### **QUESTION 3 (20 marks)**

To answer question 3, attempt **TWO** of the following (each of the two questions are worth 10 marks, in total 20 marks):

- i.
- a. Explain what is meant by the term investment appraisal. **(5 marks)**
- b. Explain what the term payback period means and discuss what are the advantages and disadvantages of using the payback period method. **(5 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. **(4 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. **(6 marks)**
- iii. Creating a partnership after being a sole trader can be fraught with difficulty. Discuss the benefits and disadvantages of changing to a partnership. **(10 marks)**
- iv. *'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? **(10 marks)**

**END OF PAPER**