

## **ACCOUNTING AND FINANCE**

Time allowed: 1.5 hours (90 minutes)

**You should answer all questions**

**PLEASE TURN OVER**

## Question 1

Please choose the correct answer for each of the following questions and write it in the answer booklet.

10 multiple choice questions – each question worth 1 mark (10 marks)

- 1) A business would only normally undertake a new project, if its NPV is calculated at:
  - (a) Negative
  - (b) Zero
  - (c) Positive
  - (d) The same figure as existing projects
  
- 2) Which of the following is NOT a standardised heading on a Cash Flow Statement?
  - (a) Operating Activities
  - (b) Gearing Activities
  - (c) Investing Activities
  - (d) Financing Activities
  
- 3) Equity + Liabilities =.....?  
Which term belongs in the blank space?
  - (a) Total Assets.
  - (b) Income
  - (c) Fixed Assets.
  - (d) Current Assets.
  
- 4) How would you calculate the gross profit or loss of a company?
  - (a) Total revenue minus cost of sales.
  - (b) Total revenue minus total costs.
  - (c) Total revenue minus administration expenses.
  - (d) Total revenue minus distribution expenses.

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**(Question 1 continued)**

- 5) If the opening balance of Trade Receivables (debtors) is £40,000 and the closing balance of Trade Receivables (debtors) is £45,000 how would this impact the cash flow statement?
- (a) The cash flow would decrease by £40,000
  - (b) The cash flow would increase by £45,000
  - (c) The cash flow would decrease by £5,000
  - (d) The cash flow would increase by £5,000
- 6) With reference to the payback method, which of the following statements is NOT true?
- (a) It ignores cash flow over the whole lifetime of the project
  - (b) It includes all the project's cash flow
  - (c) It ignores total profitability. Its main focus is the length of time it takes to repay the initial outlay.
  - (d) Is seen more as a risk appraisal method rather than a measure of return
- 7) Which of the following statements represent a current liability?
- (a) Assets of a company that are expected to be used for more than one year.
  - (b) Obligations listed on the balance sheet due for more than one year.
  - (c) Company's short term financial obligations that are due within one year.
  - (d) A potential asset that may be bought in the future.
- 8) Which of the following sources of finance is used primarily for short-term uses?
- (a) Debt factoring.
  - (b) Share Capital.
  - (c) Sale of buildings.
  - (d) Long term loan.
- 9) Which of the following is not a current asset?
- (a) Inventories.
  - (b) Trade receivables.
  - (c) Prepayment.
  - (d) Bank overdraft.

**(Question 1 continued)**

10) The Quick ratio excludes which asset?

- (a) Cash.
- (b) Trade receivables.
- (c) Excludes all assets.
- (d) Inventories.

**End of question 1**

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## Question 2 (50 marks)

The following is a trial balance for Pyramids Ltd, a small manufacturer of children' clothes for the year ending 31/03/2024:

	£'000	£'000
	Debit	Credit
Administration expenses	710	
Sales		6,000
Distribution expenses	200	
Interest paid	30	
Purchases	2,800	
Bank (Overdraft)		200
Cars accumulated depreciation to 31/3/2024		30
Cars at cost	60	
Creditors		210
Bank Loan		60
Land and buildings	3,000	
Plant and equipment accumulated depreciation to 31/3/2023		200
Plant and equipment at cost	850	
Retained profit as at 31/3/2023		500
Revaluation reserve as at 31/03/2024		300
Share capital (£1.00 ordinary shares)		2,000
Stock @ 31/03/2024	1,300	
Trade debtors	550	
<b>Total</b>	<b><u>9,500</u></b>	<b><u>9,500</u></b>

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**(Question 2 continued)**

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

- 1) After a final stock take on the 31/03/2024, stock was valued at the lower of cost and net realisable value at £1,340,000 (before taking into account transaction (2)).
- 2) In the final stock take of the year, £70,000 of stock was found to be damaged. This stock can only be sold for scrap at a value of £40,000.
- 3) The company issued 100,000 shares for £2.00 each on the 31/03/2024. This included a share premium of 50p.
- 4) The yearly rent of £24,000 for a warehouse, was paid on the 31/12/2023. This invoice was coded to administration expenses and the rental period commenced on the 01/01/2024.
- 5) The last electricity bill included in administration expenses, related to the six months ending 30/11/2023. It is estimated that the company uses £2,000 of electricity per month.

Show how the transactions above would change the financial statements.

**Required**

- a) Using all of the information from point 1 to 5 show clearly the adjustments required to the trial balance for the year ended 31/03/2024. (20 marks)
- b) From your workings in part a), prepare a Balance Sheet and Income Statement for the year ended 31/03/2024. (30 marks)

**Total 50 marks**

**End of question 2**

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**Question 3 (20 marks)**

- a) State the benefits and limitations of using ratio analysis. **(6 marks)**
- b) Briefly discuss what is the purpose of the trade receivable days ratio calculation. **(4marks)**
- c) Briefly discuss what is included in a company's annual report. **(4 marks)**
- d) Discuss three differences between financial accounting and management accounting. **(6 marks)**

**Total 20 Marks**

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**Question 4 (20 marks)**

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

Year	Net cash flow Project A (£'000)	Net cash flow Project B (£'000)	Discount factor rate to calculate NPV (10%)
0	(350)	(400)	1.00
1	100	70	0.909
2	120	90	0.826
3	130	110	0.751
4	80	130	0.683
5	65	150	0.621

**Required:**

Answer the following questions and clearly show your workings:

- a) Based on the data included in the table above, calculate the payback period of the investment. **(6 marks)**
  
- b) Based on the data included in the table above, calculate the Net Present Value (NPV) of the investment. **(10 marks)**
  
- c) Comment on your results for part a) and b) above. **(4 marks)**

**Total 20 marks**

**END OF PAPER**

Table 1: Present value of 1 unit received  $n$  periods in the future assuming a constant discount rate of  $r$  per period

$r \backslash n$	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	21%	22%	23%	24%	25%	30%	35%	40%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	0.826	0.820	0.813	0.806	0.800	0.769	0.741	0.714
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694	0.683	0.672	0.661	0.650	0.640	0.592	0.549	0.510
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579	0.564	0.551	0.537	0.524	0.512	0.455	0.406	0.364
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482	0.467	0.451	0.437	0.423	0.410	0.350	0.301	0.260
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402	0.386	0.370	0.355	0.341	0.328	0.269	0.223	0.186
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335	0.319	0.303	0.289	0.275	0.262	0.207	0.165	0.133
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279	0.263	0.249	0.235	0.222	0.210	0.159	0.122	0.095
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233	0.218	0.204	0.191	0.179	0.168	0.123	0.091	0.068
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194	0.180	0.167	0.155	0.144	0.134	0.094	0.067	0.048
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162	0.149	0.137	0.126	0.116	0.107	0.073	0.050	0.035
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135	0.123	0.112	0.103	0.094	0.086	0.056	0.037	0.025
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112	0.102	0.092	0.083	0.076	0.069	0.043	0.027	0.018
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093	0.084	0.075	0.068	0.061	0.055	0.033	0.020	0.013
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078	0.069	0.062	0.055	0.049	0.044	0.025	0.015	0.009
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065	0.057	0.051	0.045	0.040	0.035	0.020	0.011	0.006
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054	0.047	0.042	0.036	0.032	0.028	0.015	0.008	0.005
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045	0.039	0.034	0.030	0.026	0.023	0.012	0.006	0.003
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038	0.032	0.028	0.024	0.021	0.018	0.009	0.005	0.002
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031	0.027	0.023	0.020	0.017	0.014	0.007	0.003	0.002
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026	0.022	0.019	0.016	0.014	0.012	0.005	0.002	0.001
21	0.811	0.660	0.538	0.439	0.359	0.294	0.242	0.199	0.164	0.135	0.112	0.093	0.077	0.064	0.053	0.044	0.037	0.031	0.026	0.022	0.018	0.015	0.013	0.011	0.009	0.004	0.002	0.001
22	0.803	0.647	0.522	0.422	0.342	0.278	0.226	0.184	0.150	0.123	0.101	0.083	0.068	0.056	0.046	0.038	0.032	0.026	0.022	0.018	0.015	0.013	0.011	0.009	0.007	0.003	0.001	0.001
23	0.795	0.634	0.507	0.406	0.326	0.262	0.211	0.170	0.138	0.112	0.091	0.074	0.060	0.049	0.040	0.033	0.027	0.022	0.018	0.015	0.012	0.010	0.009	0.007	0.006	0.002	0.001	0.000
24	0.788	0.622	0.492	0.390	0.310	0.247	0.197	0.158	0.126	0.102	0.082	0.066	0.053	0.043	0.035	0.028	0.023	0.019	0.015	0.013	0.010	0.008	0.007	0.006	0.005	0.002	0.001	0.000
25	0.780	0.610	0.478	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047	0.038	0.030	0.024	0.020	0.016	0.013	0.010	0.009	0.007	0.006	0.005	0.004	0.001	0.001	0.000
26	0.772	0.598	0.464	0.361	0.281	0.220	0.172	0.135	0.106	0.084	0.066	0.053	0.042	0.033	0.026	0.021	0.017	0.014	0.011	0.009	0.007	0.006	0.005	0.004	0.003	0.001	0.000	0.000
27	0.764	0.586	0.450	0.347	0.268	0.207	0.161	0.125	0.098	0.076	0.060	0.047	0.037	0.029	0.023	0.018	0.014	0.011	0.009	0.007	0.006	0.005	0.004	0.003	0.002	0.001	0.000	0.000
28	0.757	0.574	0.437	0.333	0.255	0.196	0.150	0.116	0.090	0.069	0.054	0.042	0.033	0.026	0.020	0.016	0.012	0.010	0.008	0.006	0.005	0.004	0.003	0.002	0.002	0.001	0.000	0.000
29	0.749	0.563	0.424	0.321	0.243	0.185	0.141	0.107	0.082	0.063	0.048	0.037	0.029	0.022	0.017	0.014	0.011	0.008	0.006	0.005	0.004	0.003	0.002	0.002	0.002	0.000	0.000	0.000
30	0.742	0.552	0.412	0.308	0.231	0.174	0.131	0.099	0.075	0.057	0.044	0.033	0.026	0.020	0.015	0.012	0.009	0.007	0.005	0.004	0.003	0.003	0.002	0.002	0.001	0.000	0.000	0.000