

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 Wm Morrison Supermarkets plc for the years ended 31 January 2016 and 2015.

Income Statement for the years ending 31 January	2016	2015
	£'000	£'000
Turnover	18,122	18,818
Cost of sales	- 15,505	- 18,055
Gross profit	817	781
Administrative expenses	- 303	- 1,457
Operating profit/loss	314	- 898
Finance costs	- 112	- 106
Finance income	15	9
Profit/loss on ordinary activities before taxation	217	- 792
Tax on profit on ordinary activities	- 5	31
Profit/loss on ordinary activities after taxation	212	- 761
Balance sheet as at 31 January	2016	2015
	£'000	£'000
Non-current assets	7,991	7,943
Current assets		
Stocks	818	858
Debtors	192	239
Other	12	90
Cash	488	241
	1,308	1,228
Current liabilities		
Trade creditors	2,518	2,221
Other liabilities	229	52
	2,747	2,273
Non-current liabilities	2,798	3,304
Net assets	3,766	3,594
Equity Shareholders' funds	3,766	3,594

Further information:-

	2016	2015
Authorised shares	2,332.5m	2,332.5m
Dividend Paid	£260,000	£308,000

Required:

- a. From the above information, calculate financial ratios which you consider most appropriate for assessing the financial position of Wm Morrison Supermarkets plc as at the 31 January 2016 and 2015. 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 Ruby Ltd for the year ending 31/12/2015:-

	Dr	Cr
	£'000	£'000
Accruals		160
Administration expenses	205	
Bad debt provision		10
Bank	90	
Cars accumulated depreciation to 31/12/2015		44
Cars at cost	88	
Creditors		786
Debentures repayable on 31/12/2040		200
Direct wages	120	
Interest paid	80	
Land and buildings at valuation 31/12/2014	130	
Plant and equipment accumulated depreciation to 31/12/2014		250
Plant and equipment at cost	1,000	
Prepayments	45	
Purchases	1,350	
Retained profit as at 31/12/2014		388
Revaluation reserve as at 31/12/2014		30
Sales		2,720
Distribution expenses	250	
Share capital (£1.00 ordinary shares)		1,170
Stock 31/12/2014	2,100	
Trade debtors	300	
	5,758	5,758

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 £9.50 per share on 31/12/2015, receiving the full issue proceeds on that day. Included in the £9.50 per share was a £8.50 share premium.
- ii. After a final stock take on 31/12/2015, stock was valued at the lower of cost and net realisable value at £2,000,000.

- 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 1/1/2015.
- iv. As at 31/12/2015 the market valuation of the land and buildings is £100,000. The Directors intend to incorporate this valuation into the financial statements.
- v. The last monthly electricity bill for £1,000 included in administration expenses was for October 2015.
- vi. On 31/12/2015 the company took out an additional debenture loan for £100,000 which would be repayable on 31/12/2040, and repaid an existing debenture loan of £20,000.
- vii. The tax charge for the year is estimated to be £150,000.

Required

- a. Using double entry book-keeping record the effects of the items i) to vii) above.
(10 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 31/12/2015, together with a balance sheet as at that date.
(20 marks)

QUESTION 3

Spotty Ltd started business on 1 January 2016 and its year ended 31 December 2016. Spotty Ltd entered into the following transactions during the year.

- i. Spotty Ltd received funds for share capital of £500,000 on 1 January 2016
- ii. Mrs. Harris loaned the company £300,000 commencing 1 January 2016 at 5% per annum. Interest was to be paid six monthly in arrears on the 1 July 2016 and 1 January 2017
- iii. Spotty Ltd paid £2,000 in cash for advertising in 'The Wyth News' on 1 July 2016.
- iv. During the year Spotty Ltd purchased in total 20,000 units of materials at £2 per unit. Two units were needed to manufacture one finished good. Spotty Ltd manufactured all of these units to produce 10,000 units of finished goods by 31 December 2016.
- v. Total heating and lighting costs paid in cash for the year were £15,000
- vi. It was estimated that further heating and lighting costs of £3,000 were incurred within the year, but were still unpaid as at 31 December 2016
- vii. 5,000 finished goods units were sold to customers at £10 each on a credit basis
- viii. As at 31 December 2016 Spotty Ltd had received £50,000 in cash for the sale of the finished goods in (vii) above.
- ix. A further 1,500 finished goods were sold to customers at £15 each as cash sales.
- x. Salaries and wages were paid for January to November amounting to £11,000 but the December payroll cost of £1,000 had not been paid
- xi. At the end of the year a stock check was completed. In this check there were 3,500 units of finished stock with a valuation of £5 per unit.

Required:

- a) Present the above transactions in a T account format.
(17 marks)
- b) Prepare a trial balance for Spotty Ltd for the year ending 31 December 2016.
(13 marks)

QUESTION 4

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

- i) You have been asked to consider employing either a financial accountant or a management accountant but not both.

What is the difference between the two roles, and which if either, do you think is the more important? **(15 marks)**

- ii) To finance your studies at university next year you have decided to invest your 18th birthday money in a portfolio of shares and have been investigating various companies and reviewing their Annual Reports.

a. Briefly describe what type of information is found in an Annual Report **(2 marks)**

b. The IASB states that there are seven user groups of financial information – list them **(3 marks)**

c. For four of the user groups above describe how they would use the information from an Annual Report and give examples of how this can conflict with the 'company's members' **(10 marks)**

(Total 15 marks)

- iii) Explain and discuss the potential impact of the choice of accounting policies with respect to depreciation and inventory valuation, may have upon the balance sheet and profit and loss figures of a medium-sized manufacturing company.

Illustrate your answer with some numerical examples.

(15 marks)

- a) 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)**