

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 Ryan Air Holdings plc for the years ended 31 March 2016 and 2015.

| Income Statement for the years ending 31 March | 2016 | 2015 |
|---|--------------|--------------|
| | Euro M | Euro M |
| Turnover | 6,536 | 5,654 |
| Operating expenses | - 5,076 | - 4,611 |
| Operating profit/loss | 1,460 | 1,043 |
| Exceptional Item | 318 | - |
| Finance expense | - 74 | - 78 |
| Finance income | 18 | 18 |
| Profit/loss on ordinary activities before taxation | 1,722 | 983 |
| Tax on profit on ordinary activities | - 163 | - 116 |
| Profit /loss on ordinary activities after taxation | 1,559 | 867 |
| | | |
| Balance sheet as at 31 March | 2016 | 2015 |
| | Euro M | Euro M |
| Non-current assets | 6,397 | 6,444 |
| Current assets | | |
| Inventories | 3 | 2 |
| Debtors | 66 | 60 |
| Other | 432 | 890 |
| Cash | 4,321 | 4,789 |
| | 4,822 | 5,741 |
| Current liabilities | | |
| Trade creditors | 231 | 197 |
| Other liabilities | 3,139 | 3,149 |
| | 3,370 | 3,346 |
| Non-current liabilities | 4,252 | 4,804 |
| Net assets | 3,597 | 4,035 |
| Equity Shareholders' funds | 3,597 | 4,035 |

Further information:-

| | 2016 | 2015 |
|------------------------------|-------------|-------------|
| Authorised shares (Millions) | 1,341 | 1,384.7 |
| Dividend Paid (Euro M) | 398 | 520 |

Required:

- a. From the above information, calculate financial ratios which you consider most appropriate for assessing the financial position of Ryan Air Holdings plc as at 31 March 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 Charles Ltd for the year ending 31/12/2016:-

| | Dr | Cr |
|--|-------|-------|
| | £'000 | £'000 |
| Accruals | | 13 |
| Administration expenses | 320 | |
| Bad debt provision | | 2 |
| Bank | 10 | |
| Cars accumulated depreciation to 31/12/2015 | | 4 |
| Cars at cost | 20 | |
| Creditors | | 78 |
| Bank loan repayable on 31/12/2025 | | 70 |
| Production salaries | 12 | |
| Interest paid | 5 | |
| Land and buildings at valuation 31/12/2015 | 212 | |
| Plant and equipment accumulated depreciation to 31/12/2015 | | 20 |
| Plant and equipment at cost | 100 | |
| Prepayments | 4 | |
| Purchases | 149 | |
| Retained profit as at 31/12/2015 | | 45 |
| Revaluation reserve as at 31/12/2015 | | 2 |
| Sales | | 764 |
| Distribution expenses | 23 | |
| Share capital (£2.00 ordinary shares) | | 110 |
| Stock 31/12/2015 | 223 | |
| Trade receivables | 30 | |
| | 1,108 | 1,108 |

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 6,000 new shares for £6.00 per share on 31/12/2016, receiving the full issue proceeds on that day. Included in the £6.00 per share was a £4.00 share premium.
- ii. After a final stock take on 31/12/2016, stock was valued at the lower of cost and net realisable value at £225,000.
- iii. Depreciation is provided on plant and equipment so as to write off the cost on a straight-line basis over a period of 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 1/1/2016.

- iv. Depreciation is provided on cars so as to write off 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 cars were more than 4 years old on 1/1/2016
- v. The last monthly gas bill for £500 included in administration expenses was for August 2016.
- vi. On 31/12/2016 the company took out an additional debenture loan for £50,000 which would be repayable on 31/12/2040, and repaid an existing debenture loan of £40,000.
- vii. The tax charge for the year is estimated to be £72,000.

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 31/12/2016, together with a balance sheet as at that date.
(18 marks)

QUESTION 3

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

- i. Freddy Ltd received funds for share capital of £50,000 on 1 January 2016
- ii. Mr. Jones loaned the company £50,000 commencing 1 January 2016 at 10% per annum. Interest was to be paid six monthly in arrears on the 1 July 2016 and 1 January 2017.
- iii. Freddy Ltd paid £1,000 in cash for advertising in 'The Aber News' on 1 March 2016.
- iv. During the year Freddy Ltd purchased in total 20,000 units of materials at £4 per unit in cash. Four units were needed to manufacture one finished good. Freddy Ltd manufactured all of these units to produce 5,000 units of finished goods by 31 December 2016.
- v. Total heating and lighting costs paid in cash for the year were £5,000
- vi. It was estimated that further heating and lighting costs of £5,000 were incurred within the year, but were still unpaid as at 31 December 2016
- vii. 2,500 finished goods units were sold to customers at £50 each on a credit basis
- viii. As at 31 December 2016 Freddy Ltd had received £100,000 in cash for the sale of the finished goods in (vii.) above.
- ix. A further 500 finished goods were sold to customers at £60 each as cash sales.
- x. Rent on the premises of £60,000 was paid in full for two years on 1 January 2016.
- xi. Salaries and wages were paid for January to November amounting to £44,000 but the December payroll cost of £4,000 had not been paid
- xii. A new car was purchased in cash for £9,000 on 1 January 2016 and expected to last for 3 years. Freddy 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 2,000 units of finished stock with a valuation of £18 per unit.

Required:

- a) Present the above transactions in a T account format.
(17 marks)
- b) Prepare a trial balance for Freddy 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) Freddy Ltd has the funds available 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) 'The Auditor's report, found within the company's annual report is addressed to 'members', surely it is for their use only?'

a. Who are the 'members'? **(1 mark)**

b. List the seven user groups that are recognised by the IASB **(4 marks)**

c. From your list above describe how FIVE user groups would use the annual report and discuss the potential conflicts between these users and the purposes for which published annual reports are produced.

(10 marks)
(15 marks in total)

- iii) 'A trial balance always balances; therefore the financial statements must be correct'

a. What is a trial balance? **(5 marks)**

b. Discuss this statement giving numerical examples where appropriate **(10 marks)**

(15 marks in total)

- iv) Some financial analysts believe the most important financial statement is the cash flow.

a. List the three main areas of the cash flow statement **(3 marks)**

b. Do you agree with financial analysts' belief that the cash flow statement is the most important one?

(12 marks)
(15 marks in total)