

UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

BSC (HONS) BUSINESS MANAGEMENT

SEMESTER 1 EXAMINATION 2023/24

**FINANCIAL ACCOUNTING AND THE REGULATORY
FRAMEWORK**

MODULE NO: BMP6018

Date: Wednesday 10th January 2024

Time: 10.00am – 1.00pm

INSTRUCTIONS TO CANDIDATES:

There are **FOUR** questions on this paper.

Answer **ALL FOUR** questions.

All questions carry equal marks.
Calculators may be used but full workings must be shown.

PROVIDED:

Formulae sheet, suggested templates of financial statements.

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Question 1

- a) In relation to the preparation of financial statements, what is the purpose of having accounting principles?

(5 marks)

- b) List and evaluate 10 accounting principles that underpin the preparation of financial statements.

(20 marks)**(Total 25 marks)****Question 2**

The directors of Carter & Carter Ltd have been presented with the following abridged financial statements:

Carter & Carter Ltd

Income statement for the year ended 30 Dec

	2021		2022	
	£ 000	£ 000	£ 000	£ 000
Sales revenue		3600		3840
Cost of sales				
Opening inventories	320		400	
Purchases	<u>2240</u>		<u>2350</u>	
	2560		2750	
Closing inventories	(400)	<u>(2160)</u>	(500)	<u>(2250)</u>
Gross profit		1440		1590
Expenses		<u>(1,360)</u>		<u>1500</u>
Profit		80		90

Question 2 continues over the page

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Question 2 continued

Statement of financial position as at 30 December

	2021	2022
	£ 000	£ 000
ASSETS		
Non-current assets		
Property, plant and equipment	<u>1900</u>	<u>1860</u>
Current assets		
Inventories	400	500
Trade receivables	750	960
Cash at bank	<u>8</u>	<u>4</u>
	<u>1158</u>	<u>1464</u>
Total Assets	<u>3058</u>	<u>3324</u>
EQUITY AND LIABILITIES		
Equity		
£1 ordinary shares	1650	1766
Retained earnings	<u>1018</u>	<u>1108</u>
	2668	2874
Current liabilities	<u>390</u>	<u>450</u>
Total equity and liabilities	<u>3058</u>	<u>3324</u>

Required: Using six ratios, interpret and evaluate the profitability (x2 ratios), efficiency (x2 ratios) and liquidity (x2 ratios) positions of the business.

(Total 25 marks)**Please turn the page**

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Question 3

This is the trial balance of Gingham Services Ltd for the year ending 31 December 2021

	£	£
Premises	120,000	
Long term loan		60,000
Capital		70,000
Receivables (debtors)	1,900	
Payables (creditors)		1,500
Drawings	5,000	
Cash	150	
Inventories (stock) 1 Jan.2021	4,200	
Fixtures & fittings	5,000	
Provision for depreciation (Fixtures & fittings)		1,000
Vehicles	10,000	
Provision for depreciation (vehicles)		2,000
Bank overdraft		750
Sales		195,000
Purchases	154,000	
Wages	20,500	
Sundry expenses	9,500	
	<u>330,250</u>	<u>330,250</u>

Notes

- Inventories (stock) at 31 December 2021 was valued at £5,200
- Vehicles & fixtures and fittings are to be depreciated at 20% (straight line)
- Bad debts amounting to £200 are to be written off.
- Wages prepaid are £560, and sundry expenses accrued are £500.

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Question 3 Continued

Required

- a) Prepare the Income Statement for the year ended 31 December 2021
 (10 marks)
- b) Prepare the statement of financial position as at that date.
 (10 marks)
- c) Evaluate the rules for treating bad debts and provision for bad debts.
 (5 marks)
- (Total 25 marks)**

Question 4

Brian and Pete are in partnership running a small business.

The following is the trial balance of the business on 30th June 2023:

Trial balance as at 30th June 2023

	Dr £	CR £
Sales		600,600
Purchases	424,400	
Land and buildings (at cost)	240,000	
Vehicles (cost)	20,000	

Question 4 continues over the page

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Question 4 Continued

	<u>Dr</u>	<u>CR</u>
	£	£
Depreciation on vehicles		3,000
Fixtures and fittings (cost)	55,200	
Depreciation on fixtures and fittings		10,000
Inventory (at start of year)	34,000	
Bank		14,000
Accounts Receivable	101,800	
Accounts Payable		85,800
Rates	15,000	
Wages	38,000	
General expenses	6,400	
Bank charges	3,600	
Advertising	21,200	
Long-term loan (10%)		50,000
Interest on loan	5,000	
Capital: Brian		140,000
Pete		80,000
Current accounts: Brian	2,000	
Pete		12,000
Drawings: Brian	16,000	
Pete	<u>12,800</u>	<u>-----</u>
	<u>995,400</u>	<u>995,400</u>

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Question 4 Continued

You are also provided with the following information:

- Inventory at the year-end was valued at £44,000.
- Rates had been prepaid by £4,000.
- During the year Brian took goods for his own use which cost £1,600. No record of this had been made in the books.
- Depreciation for the year is to be charged as follows:

Motor vehicles	£3,000.
Fixtures and fittings	£5,000.
- Profits/losses are to be shared equally.
- Interest on capital to be allowed at 12% per annum.
- Salaries: Brian £20,000; Pete £30,000
- No interest to be charged on drawings.
- No changes are to be made to the capital account balances.

Required:

- a) Prepare an Income Statement for the year ending 30th June 2023.
(10 marks)
 - b) Prepare a Statement of Financial position as at the year end.
(10 marks)
 - c) Clear demonstration of workings for year-end adjustments.
(5 marks)
- (Total 25 marks)**

END OF QUESTIONS

**Financial statement template
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Appendices:

1) Financial Statements Template

Note: These are suggested templates with example items listed under specific sections such as expenses and current assets. Please check with question information to make correct entries and calculations.

1.1) Statement of Comprehensive Income

	£	£
Revenue/Sales		
Less: Sales returns		
Net Sales		
<u>Less: Cost of Sales</u>		
Opening inventory		
Purchases		
Less: Purchase returns		
Add: Carriage in		
Less: Closing inventory		
= Cost of sales		
Gross Profit		
Add: Discount received		
Add: Reductions in provision for doubtful debts		
<u>Less Expenses</u>		
Discount allowed		
Carriage outwards		
Rent, rates & Insurance		
Heating & lighting		
Postage & stationery		
Advertising		
Salaries and wages		
Bad debts		
Increase in provision for bad debts		
Depreciation charge		
Net Profit		

**Financial statement template
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Financial statement template and formula sheet continued

1.2) Statement of Financial Position

	£	£	£
	Cost	Accumulated Depreciation	NBV
<u>Non-Current assets</u>			
Fixtures and fittings			
<u>Current Assets</u>			
Inventory			
Receivables			
Cash at bank			
Cash in hand			
Prepayments			
<u>Non - Current Liabilities</u>			
Long term loan			
<u>Current liabilities</u>			
Less: Payables			
Less: Accruals			
Net Assets			
<u>Capital</u>			
Add: Profit for year			
Less: Drawings			
Net Capital			

Financial statement template
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Financial statement template and formula sheet continued

2) Ratio analysis – Formulae

Profitability ratios

Gross profit Margin	$\frac{\text{Revenue} - \text{Cost of goods sold}}{\text{Revenue}} \times 100$
Return on Capital Employed (ROCE)	$\frac{\text{Profit before interest and tax}}{\text{capital employed}} \times 100$
Operating Profit Margin	$\frac{\text{Operating profit}}{\text{Total revenue}} \times 100$
Net Profit Margin	$\frac{\text{Net profit}}{\text{Revenue}} \times 100$

Liquidity ratios

Current ratio	$\frac{\text{Current asset}}{\text{Current liabilities}}$
Quick or acid test ratio	$\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$
Inventory days	$\frac{\text{Average inventory}}{\text{Cost of sales}} \times 365$
Receivable or debtor days	$\frac{\text{Receivables}}{\text{Sales}} \times 365$
Payable or creditor days	$\frac{\text{Payables}}{\text{Cost of sales}} \times 365$

Investor ratios

Dividend yield	$\frac{\text{Dividends per share}}{\text{market price}}$
P/E ratio	$\frac{\text{Market price}}{\text{Earnings per share}}$
Earnings Per Share ratio	$\frac{\text{Earnings available for distribution to equity}}{\text{Number of shares in issue and ranking for dividends}}$

END OF FINANCIAL STATEMENT TEMPLATE AND FORMULA SHEET

END OF EXAM