

UNIVERSITY OF BOLTON
GREATER MANCHESTER BUSINESS SCHOOL
BSC (HONS) BUSINESS MANAGEMENT (FINANCE
PATHWAY)
SEMESTER 1 EXAMINATIONS 2024/2025
FINANCIAL ACCOUNTING AND THE REGULATORY
FRAMEWORK
MODULE NO: BMP6044

Date: Friday 10 January 2025

Time: 2.00pm – 4.00pm

INSTRUCTIONS TO CANDIDATES:

This is a 2 hours exam.

There are THREE questions on this paper. Answer ALL questions.

Calculators are allowed.

Typed notes on two sides of an A4 sheet is allowed with: font type Arial, Size 12 and double spaced.

(Included: Guided financial statements templates and formulae sheet for ratio analysis)

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Q1. Pimlico Limited manufactures nuts and bolts which are sold to industrial users.
 The abbreviated financial statements for 2021 and 2022 are as follows:

Income statements for the year ended 30 June

	2021	2022
	£000	£000
Revenue	1,180	1,200
Cost of Sales	<u>(680)</u>	<u>(750)</u>
Gross Profit	500	450
Operating Expenses	(200)	(208)
Depreciation	<u>(66)</u>	<u>(75)</u>
Operating Profit	234	167
Interest	<u>(-)</u>	<u>(8)</u>
Profit before taxation	234	159
Taxation	<u>(80)</u>	<u>(48)</u>
Profit for the year	<u>154</u>	<u>111</u>

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Question Q1 Continued

Statements of financial position as at 30 June

	2021	2022
	£000	£000
Assets		
Non-current Assets		
Property Plant and equipment	<u>702</u>	<u>687</u>
Current Assets		
Inventories	148	236
Trade receivables	102	156
Cash	<u>3</u>	<u>4</u>
	<u>253</u>	<u>396</u>
Total assets	<u>955</u>	<u>1083</u>
Equity and Liabilities		
Equity		
Ordinary share capital (£1 shares, fully paid)	500	500
Retained Earnings	<u>256</u>	<u>295</u>
	<u>756</u>	<u>795</u>
Non-current liabilities		
Borrowing – bank loan	-	<u>50</u>
Current Liabilities		
Trade Payables	60	76
Other payables and accruals	18	16
Taxation	40	24
Short-term borrowings (All bank overdraft)	<u>81</u>	<u>122</u>
	<u>199</u>	<u>238</u>
Total equity and liabilities	<u>955</u>	<u>1083</u>

Question Q1 continues over the page

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Question Q1 Continued

Dividends were paid on ordinary shares of £70000 and £72000 in respect of 2021 and 2022, respectively.

Required:

(a) Calculate the following financial ratios for both 2021 and 2022 (using year-end figures for statement of financial position items):

- I. ROCE,
- II. Operating Profit Margin,
- III. Gross Profit Margin,
- IV. Current Ratio,
- V. Acid Test Ratio,
- VI. Trade Receivable Days,
- VII. Trade Payable Days
- VIII. Inventory Turnover Period.

(16 Marks)

(b) Comment on the performance of Pimlico Limited from the viewpoint of a business considering supplying a substantial amount of goods to Pimlico Limited on usual credit terms.

(9 marks)

(c) Critically appraise ratio analysis as a technique for financial performance measurement.

(10 marks)

(Total Marks 35)

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Q2. Below is a trial balance as of 30 September 2022 for Brian Apparels Ltd:

	Dr	Cr
	£	£
Inventory: 1 Oct 2021	41,600	
Carriage Outwards	2100	
Carriage Inwards	3700	
Returns Inwards	1540	
Returns Outwards		3410
Purchases	188,430	
Sales		380,400
Salaries and Wages	61400	
Warehouse Rent	3700	
Insurance	1356	
Motor expenses	1910	
Office expenses	412	
Lighting and Heating expenses	894	
General Expenses	245	
Premises	92000	
Motor Vehicles	13400	
Fixtures and fittings	1900	
Accounts receivable	42560	
Accounts payable		31600
Cash at bank	5106	
Drawings	22000	
Capital		68843
	484,253	484,253

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Question Q2 Continued

Inventory on 30 September 2022 was £44,780.

Required:

- a) From the above trial balance of Brian Apparels Ltd prepare an income statement and a statement of financial position as of 30 September 2022.

(25 marks)

- b) In addition to the Income Statement and Statement of Financial Position, limited companies also prepare a statement of changes in equity and cashflow. Critically discuss their characteristics and significances.

(10 marks)

(Total Marks 35)

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Q3. Ben and Sharpe are in partnership sharing profits and losses in the ratio 3:2.
 The following is their trial balance at 30 September 2023:

	Dr	Cr
	£	£
Buildings (cost £210,000)	160,000	
Fixtures at cost	8,200	
Provision for depreciation: Fixtures		4,200
Accounts receivable	61,400	
Accounts payable		26,590
Cash at bank	6,130	
Inventory at 30 September 2022	62,740	
Sales		363,111
Purchases	210,000	
Carriage Outwards	3,410	
Discount allowed	620	
Loan Interest: P. Prince	3,900	
Office Expenses	4,760	
Salaries and Wages	57,809	
Bad debts	1,632	
Allowance for doubtful debts		1,400
Loan from P. Prince		65000
Capital: Ben		100000
Capital: Sharpe		75000
Current Account: Ben		4,100
Current Account: Sharpe		1200
Drawings: Ben	31800	
Drawings: Sharpe	28,200	
	640,601	640,601

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Question Q3 continued

Additional information at year end:

- I. Inventory, 30 September 2023 £74,210.
- II. Expenses to be accrued: Office Expenses 215; Wages £720.
- III. Depreciate Fixtures 15% on reducing balance basis; buildings £5000.
- IV. Reduce provision for doubtful debts to £1250.
- V. Partnership Salary: £30,000 to Ben. Not yet entered.
- VI. Interest on drawings: Ben £900; Sharpe £600
- VII. Interest on capital account balance at 5%.

Required:

- (a) Prepare an Income Statement for the year ending 30 September 2023

(10 Marks)

- (b) Prepare a partnership appropriation account for the year ending 30 September 2023.

(10 Marks)

- (c) Prepare a statement of financial position as at that date.

(10 Marks)

(Total Marks 30)

END OF QUESTIONS

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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		

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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			
<u>Net Assets</u>			
<u>Capital</u>			
Add: Profit for year			
Less: Drawings			
<u>Net Capital</u>			

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Appendices 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)	$\frac{\text{Profit before interest and tax}}{\text{Capital employed (total assets - current liabilities)}} \times 100$
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 APPENDICES

END OF EXAM