**ST MARY’S UNIVERSITY**

**TWICKENHAM, LONDON**

BA/BA(ITT)/BSc Degree Examination students registered for

Level **FIVE**

Title: **Fundamentals of Accounting**

Code: **MGT5014**

Semester: **ONE**

Date: **9th January, 2020**

Time: **9:30 am – 11:30 am**

TIME ALLOWED**:** **TWO HOURS**

End of module examination (50% weighting)

Candidates are permitted to bring one approved calculator into this examination.

Answer **ALL** questions in the answer booklet provided.

**Question 1 (20 marks)**

BothRock Ltdand Gem Ltd are close competitors in jewelry wholesale supplying goods to retailers.

Table 1 & 2 shows extracts from each company’s final accounts for the financial year ended 31st December 2019.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Table 1: Extracts from the Statements of Comprehensive Income for year ending 31st Dec 2019** |  |  |  |  |  |  |
|  |  |  | **Rock**  |  |  |  | **Gem**  |  |  |  |  |  |  |
|  |  |  | **£** |  |  |  | **£** |  |  |  |  |  |  |
|  Sales  |  |  |  386,400  |  |  |  |  764,200  |  |  |  |  |  |  |
|  Cost of Goods Sold  |  |  | 289,120  |  |  |  |  648,300  |  |  |  |  |  |  |
|  Gross profitAdmin Expenses  |  |  |  97,28043,400  |  |  |  |  115,90037,650  |  |  |  |  |  |  |
| Distribution costs |  |  |  14,680  |  |  |  |  24,650  |  |  |  |  |  |  |
| Profit before interest & tax |  |  |  39,200  |  |  |  |  53,600  |  |  |  |  |  |  |
| Loan interest  |  |  | 1,400  |  |  |  |  7,000  |  |  |  |  |  |  |
| Net profit before tax  |  |  | 37,800  |  |  |  |  46,600  |  |  |  |  |  |  |
| Taxation  |  |  |  4,600  |  |  |  |  20,000  |  |  |  |  |  |  |
| Ordinary dividend  |  |  |  5,000  |  |  |  |  6,000  |  |  |  |  |  |  |
| Retained profit for year  |  |  |  28,200  |  |  |  |  20,600  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Table 2: Statements of Financial Position as at 31st Dec 2019**  |  |  |  |  |  |  |
|  | **Rock**  |  |  |  | **Gem**  |  |  |  |  |  |  |  |  |
|  |  **(£)** |  **(£)**  |  **(£)** |  |  **(£)** |  **(£)** |  **(£)** |  |  |  |  |  |  |
| **Non-current assets (at cost less depreciation)**  |  |  |  135,000  |  |  |  | 312,000 |  |  |  |  |  |  |
| **Current Assets** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Inventory  |  51,200  |  |  |  | 85,300  |  |  |  |  |  |  |  |  |
| Trade Receivables  |  29,700  |  |  |  |  55,700  |  |  |  |  |  |  |  |  |
| Cash |  15,600  |  |  |  |  3,500  |  |  |  |  |  |  |  |  |
| **Total current assets**  |  |  |  96,500  |  |  |  |  144,500  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Total assets**  |  |  |  231,500  |  |  |  |  456,500  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Equity**  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Ordinary Shares (£1 each)Share Premium  |  |  |  80,00025,000  |  |  |  |  120,00030,000  |  |  |  |  |  |  |
| Retained earnings  |  |  |  36,000  |  |  |  |  50,600  |  |  |  |  |  |  |
| **Total Capital**  |  |  |  141,000  |  |  |  |  200,600  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Non-current liabilities**  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 7% Debentures |  |  |  20,000  |  |  |  |  100,000  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Current liabilities**  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|   |  |   |  |  |  |   |  |  |  |  |  |  |  |
| Trade Payables |  | 52,300  |  |  |  | 131,100  |  |  |  |  |  |  |  |
| Taxation |  | 18,200  |  |  |  | 24,800  |  |  |  |  |  |  |  |
|  |  |   | 70,500  |  |  |   |  155,900  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Total Equity and Liabilities** |  |  |  231,500  |  |  |  | 456,500  |  |  |  |  |  |  |

**Additional information:**

1. The value of inventory held on 31st December represents the average level of inventory held throughout the year ending 31/12/2019.

2. All inventory is purchased on credit.

3. All sales are transacted on credit.

4. On 31st December 2019, the market share price was:

**Rock**: £5.25 per share

**Gem**: £4.80 per share

Calculate the following ratios for **each** company (write the ratio formula and the full calculation into the answer booklet):

1. Return on capital employed (ROCE) **(2 marks)**
2. Gross profit margin **(2 marks)**
3. Net profit margin **(2 marks)**
4. Volume of trade **(2 marks)**
5. Acid test ratio **(2 marks)**
6. Inventory turnover in days **(2 marks)**
7. Debtors (i.e. trade receivables) collection period **(2 marks)**
8. Creditors (i.e. trade payables) payment period **(2 marks)**
9. Price/Earnings (P/E) ratio **(2 marks)**
10. Gearing Ratio. **(2 marks)**

**Question 2 (40 marks)**

Table 3 provides data on the average financial ratios for the electrical wholesale sector.

|  |  |
| --- | --- |
| **Table 3 : Financial ratios for the industry** | ***Industry Average*** |
| Return on capital employed | 18.50% |
| Net profit margin | 15.00% |
| Gross profit margin | 35.23% |
| Volume of trade | 1.5 |
| Current ratio | 1.90 |
| Acid test ratio | 1.27 |
| Debtors collection period | 30 days |
| Creditors payment period | 49 days |
| Inventory turnover | 4 cycles |
| Gearing | 32% |
| Net dividend | £0.05 |
| Dividend cover | 6 times |
| Interest cover | 15 times |
| Earnings per share | £0.36 |
| PE ratio  | 26 |

With reference to table 3 and to the answers you calculated in question 1, write an evaluation in which you compare and contrast the financial performance of the two companies in the following areas:

1. Profitability **(15 marks)**
2. Management of working capital and liquidity **(15 marks)**
3. Investment potential **(10 marks)**

**Question 3 (40 marks)**

What additional information (i.e. data not contained in tables 1, 2 & 3) would be useful in evaluating the performance of the two companies? Include in your answer a review of the limitations of ratio analysis as a tool for evaluating the financial statements of a business.

**END OF EXAMINATION**