**ST MARY’S UNIVERSITY**

TWICKENHAM, LONDON

BA/BA (ITT) Degree Examination students registered for

Level **FIVE**

Title: **Fundamentals of Accounting**

Code: **MGT5014**

Semester: **ONE**

Date: **January 9th 2019**

Time: **1:30 – 3:30PM**

TIME ALLOWED: **TWO** HOURS

End of module examination. Candidates are permitted to bring one approved calculator into this examination. ANSWER ALL QUESTIONS.

**Question 1: (20 marks)**

Both *Plug plc* and *Socket plc* operate wholesale electrical stores throughout the UK. Table 1 shows extracts from each company’s final accounts for the financial year ended 31st December 2018.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Statement of Financial Position as at 31st December 2018** |  |  |  |  |  |  |
|  | **Plug** |  |  |  | **Socket** |  |  |  |  |  |  |  |  |
|  | *£m* | *£m* | *£m* |  | *£m* | *£m* | *£m* |  |  |  |  |  |  |
| **Non-current assets (at cost less depreciation)**  |  |  |  447.0  |  |  |  | 601.2 |  |  |  |  |  |  |
| **Current Assets** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Inventory  |  592.0  |  |  |  |  403.0  |  |  |  |  |  |  |  |  |
| Trade Receivables  |  176.4  |  |  |  |  321.9  |  |  |  |  |  |  |  |  |
| Cash |  84.6  |  |  |  |  91.6  |  |  |  |  |  |  |  |  |
| **Total current assets**  |  |  |  853.0  |  |  |  |  816.5  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Total assets**  |  |  |  1,300.0  |  |  |  |  1,417.7  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Equity**  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Ordinary Shares (£1 each)  |  |  |  320.0  |  |  |  |  250.0  |  |  |  |  |  |  |
| Retained earnings  |  |  |  367.6  |  |  |  |  624.6  |  |  |  |  |  |  |
| **Total Capital**  |  |  |  687.6  |  |  |  |  874.6  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Non-current liabilities**  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Loan |  |  |  190.0  |  |  |  |  250.0  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Current liabilities**  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|   |  |   |  |  |  |   |  |  |  |  |  |  |  |
| Trade Payables |  |  406.5  |  |  |  |  275.7  |  |  |  |  |  |  |  |
| Taxation |  |  16.5  |  |  |  |  17.4  |  |  |  |  |  |  |  |
|  |  |   | 422.4  |  |  |   |  293.1  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Total Equity and Liabilities** |  |  |  1,300.0  |  |  |  |  1,417.7  |  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- | --- |
| **Extracts from the Statements of Comprehensive Income for year ending 31st December 2018** |  |  |  |  |  |  |
|  |  |  | **Plug** |  |  |  | **Socket** |  |  |  |  |  |  |
|  |  |  | *£m* |  |  |  | *£m* |  |  |  |  |  |  |
|  Sales  |  |  |  1,478.1  |  |  |  |  1,790.4  |  |  |  |  |  |  |
|  Cost of Goods Sold  |  |  | 1,018.3  |  |  |  |  1,214.9  |  |  |  |  |  |  |
|  Gross profit  |  |  |  459.8  |  |  |  |  575.5  |  |  |  |  |  |  |
| Other expenses |  |  |  308.5  |  |  |  |  408.6  |  |  |  |  |  |  |
| Profit before interest & tax |  |  |  151.3  |  |  |  |  166.9  |  |  |  |  |  |  |
| Loan interest  |  |  | 19.4  |  |  |  |  27.5  |  |  |  |  |  |  |
| Net profit before tax  |  |  | 440  |  |  |  |  299  |  |  |  |  |  |  |
| Taxation  |  |  |  140  |  |  |  |  96  |  |  |  |  |  |  |
| Ordinary dividend  |  |  |  65  |  |  |  |  55  |  |  |  |  |  |  |
| Retained profit for year  |  |  |  235  |  |  |  |  148  |  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **Additional information:**1. The value of inventory held on 31st December represents the average level of inventory held throughout the year ending 31/12/2018.2. All inventory is purchased on credit. 3. All sales are transacted on credit. 3. On 31st December 2018 the market share price was:**Plug**: £6.50 per share **Socket**: £8.20 per share |  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Calculate the following ratios for **each** company (write the full calculation in 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 2 provides data on the average financial ratios for the electrical wholesale sector.

|  |  |
| --- | --- |
| **Table 2: 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 2 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**