**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 |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **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**