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| **Faculty of Arts & Social Sciences** | | |
| **Surrey Business School** | | |
| Postgraduate Programmes in Management | | |
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| **MANM297: Accounting & Finance for Business** | | |
| FHEQ Level 7 Examination | | |
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| **This is an online exam available for 2 hour within 4 hour window.** | | |
| Time allowed: | 2 hours within a 4 hour period | Semester 2 2022/3 |
| Answer **ALL THREE** questions  Where appropriate the mark carried by an individual part of a question is indicated in square brackets [ ]. | | |
|  | | |
| Calculators are permitted | | |
|  | | |
| *Additional materials: Open book* | | |
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**Question 1:**

**a)**

Statements of financial position for Angel Ltd at 31st December 2022 and 31st December 2021 together with extracts from the statement of profit or loss for the year ended 31st December 2022 and relevant notes are presented below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2022 |  | 2021 |
|  | £000 |  | £000 |
| Assets |  |  |  |
| Non-current assets |  |  |  |
| Property, plant, and equipment | 15,755 |  | 10,249 |
| Investments | 940 |  | 780 |
|  | 16,695 |  | 11,029 |
| Current assets |  |  |  |
| Inventory | 3,145 |  | 2,768 |
| Trade and other receivables | 5,668 |  | 5,786 |
| Cash and cash equivalents | 1,172 |  | 994 |
|  | 9,985 |  | 9,548 |
| Total assets | 26,680 |  | 20,577 |
| Current liabilities |  |  |  |
| Borrowings | 500 |  | – |
| Trade and other payables | 4,789 |  | 4,125 |
| Current taxation | 1,475 |  | 1,256 |
|  | 6,764 |  | 5,381 |
| Non-current liabilities |  |  |  |
| Borrowings | 4,500 |  | 2,000 |
| Provisions | 900 |  | 1,200 |
|  | 5,400 |  | 3,200 |
| Total liabilities | 12,164 |  | 8,581 |
| Net assets | 14,516 |  | 11,996 |
| Equity |  |  |  |
| Share capital | 2,500 |  | 2,000 |
| Share premium | 4,000 |  | 3,000 |
| Retained earnings | 8,016 |  | 6,996 |
|  | 14,516 |  | 11,996 |

Angel Limited: statement of profit or loss (extract) for the year ended 31st December 2022

|  |  |
| --- | --- |
|  | £000 |
| Operating profit | 7,698 |
| Finance income | 15 |
| Finance expense | 188 |
| Profit before tax | 7,525 |
| Income tax | 1,505 |
| Profit for the year | 6,020 |

Notes to the financial statements

* On 31st December 2022, Angel Limited paid a dividend of £5,000,000.
* The shares issued during the year were issued directly to the supplier of property, plant and equipment in part payment for the new non-current assets acquired. No cash was raised from the issue of these shares. The remainder of the property, plant and equipment acquired during the year was paid for in cash.
* The total acquisition cost of property, plant and equipment acquired during the year was £8,406,000.
* Property, plant and equipment that had cost £800,000 and on which £450,000 depreciation had been charged up to the date of disposal was sold during the year. The profit on disposal of this property, plant and equipment was £125,000.
* Depreciation charged on property, plant and equipment during the year amounted to £2,550,000.
* The company made a taxation payment of £1,286,000 during the year ended 31st December 2022.

**Required:**

Prepare the statement of cash flows for Angel Limited for the year ended 31st December 2022 using the indirect method.

**[20 marks]**

**b)**

Minerva Limited has developed a branded bag and is looking for recommendations to include the brand as an asset on the company’s statement of financial position. The branded bag generated £100,000 in the past year and with the increase in the advertisement, the company is expecting the sales to grow at the rate of 5% each year for the foreseeable future. Does the brand meet the criteria for recognizing an asset? Give reasons for your answer.

**[5 marks]**

**c)**

Silicon Limited’s machinery requires major repairs. The company would like to include the repair cost as a liability on the company’s statement of financial position, but the total cost has not yet been determined. In this situation, do the major repairs meet the criteria for recognizing a liability? Give reasons for your answer.

**[5 marks]**

**[Total: 30 marks]**

**Question 2:**

Flexi Limited is a manufacturer of ceramic casserole dishes. The company expects to be operating at 80% capacity for the foreseeable future. The company’s budgeted sales and costs for the next financial year are as follows:

|  |  |  |
| --- | --- | --- |
|  | £000 |  |
| Sales: 200,000 casserole dishes @ £195 each | 39,000 | Costs: % Variable |
| Materials | 12,000 | 100 |
| Direct labour | 10,000 | 100 |
| Factory overhead | 8,000 | 35 |
| Administration and selling costs | 2,000 | 10 |

All costs that are not variable are fixed.

The directors of Flexi Limited frequently receive one-off orders for their products. The prices offered by buyers in these one-off orders are always below the £195 regular budgeted selling price. Currently, the directors are considering the following one-off orders from four potential customers for the next financial year:

1. 40,000 casserole dishes at £105 each.
2. 30,000 casserole dishes at £125 each.
3. 25,000 casserole dishes at £140 each.
4. 20,000 casserole dishes at £150 each.

**Required**

1. Calculate the break-even point and the margin of safety in units based on the budgeted sales and costs for the next financial year.

**[12 marks]**

1. Evaluate the one-off orders and determine whether the directors of Flexi should accept one or more of these orders. Your evaluation should include consideration of non-financial as well as financial factors.

**[18 marks]**

1. Identify at least two different ways in which organizations allocate overheads to products and services with their advantages and disadvantages.

**[10 marks]**

**[Total: 40 marks]**

**Question 3:**

Aero Limited runs transport services in cities in both the UK and Europe. The company’s financial statements for the years ended 31 December 2022 and 31 December 2021 are presented below:

**Statements of Financial Position**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2022**  **£m** |  | **2021**  **£m** |
| Non-current assets |  |  |  |
| Intangible assets | 735 |  | 700 |
| Property, plant and equipment | 435 |  | 415 |
|  | 1,170 |  | 1,115 |
| Current assets |  |  |  |
| Inventories | 12 |  | 11 |
| Trade and other receivables | 160 |  | 134 |
| Cash and cash equivalents | 143 |  | 145 |
|  | 315 |  | 290 |
| Total assets | 1.485 |  | 1,405 |
| Current liabilities |  |  |  |
| Borrowings | 75 |  | 200 |
| Trade and other payables | 300 |  | 270 |
| Current taxation | 45 |  | 30 |
|  | 420 |  | 500 |
| Non-current liabilities: Borrowings | 475 |  | 370 |
| Total liabilities | 895 |  | 870 |
| Net assets | 590 |  | 535 |
| Equity |  |  |  |
| Share capital (£0.20 shares) | 100 |  | 100 |
| Share premium | 240 |  | 240 |
| Retained earnings | 250 |  | 195 |
| Total equity | 590 |  | 535 |

**Statements of profit or loss for the years ended 31st December**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2022** |  | **2021** |
|  | **£m** |  | **£m** |
| Revenue | 1,044 |  | 987 |
| Cost of sales | 724 |  | 717 |
| Gross profit | 320 |  | 270 |
| Distribution costs | 17 |  | 16 |
| Administrative expenses | 54 |  | 46 |
| Operating profit | 249 |  | 208 |
| Finance income | 5 |  | 5 |
| Finance expense | 35 |  | 37 |
| Profit before tax | 219 |  | 176 |
| Income tax | 44 |  | 36 |
| Profit for the year | 175 |  | 140 |

Additional Information:

* Trade and other payables include dividends payable of £120m at 31st December 2022 and dividends payable of £100m at 31st December 2021.
* Depreciation of £35m was provided on property, plant, and equipment and amortisation of £25m was charged on the intangible non-current asset during the year ended 31st December 2022.

**Required:**

1. Calculate the following ratios for 2022 and 2021 for Aero Limited:

* Current ratio
* Quick ratio
* Debt ratio
* Gearing ratio
* Interest cover
* Inventory days
* Receivable days
* Trade payables days
* Cash conversion cycle

Your ratio calculations should be made to two decimal places.

**[18 Marks]**

1. Abraj Limited has £800,000 to invest. There are two potential projects A and B, but the company has sufficient cash to invest in only one project. Abraj Limited has a cost of capital of 9%.

|  |  |  |
| --- | --- | --- |
|  | A | B |
| Cash flows | £000 | £000 |
| Initial investment | (800) | (800) |
| Cash inflows year 1 | 250 | 150 |
| Cash inflows year 2 | 300 | 200 |
| Cash inflows year 3 | 200 | 200 |
| Cash inflows year 4 | 200 | 250 |
| Cash inflows year 5 | 150 | 300 |
| Cash inflow from the sale of the investment at the end of year 5 | 100 | 200 |

**Required**

* Calculate the Net Present Value (NPV) for both projects.

**[7 marks]**

* Based on the NPV values of both projects and any other relevant factors, briefly discuss which project should be selected

**[5 marks]**

**[Total: 30 marks]**

1. Abraj Limited has £800,000 to invest. There are two potential projects A and B, but the company has sufficient cash to invest in only one project. Abraj Limited has a cost of capital of 9%.

|  |  |  |
| --- | --- | --- |
|  | A | B |
| Cash flows | £000 | £000 |
| Initial investment | (800) | (800) |
| Cash inflows year 1 | 250 | 150 |
| Cash inflows year 2 | 300 | 200 |
| Cash inflows year 3 | 200 | 200 |
| Cash inflows year 4 | 200 | 250 |
| Cash inflows year 5 | 150 | 300 |
| Cash inflow from the sale of the investment at the end of year 5 | 100 | 200 |

**Required**

* Calculate the Net Present Value (NPV) for both projects.

**[7 marks]**

* Based on the NPV values of both projects and any other relevant factors, briefly discuss which project should be selected

**[5 marks]**

**[Total: 30 marks]**

**[END OF EXAM]**