

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**LEVEL 4 CERTIFICATE IN MANAGEMENT CONSULTING 10331**

**UNIT 2 ANALYSING FINANCIAL STATEMENTS AND REPORTING**

**TUESDAY 16 JUNE 2015**

**9.30 AM**

**TIME: 1 HOUR 30 MINUTES**

**INSTRUCTIONS TO CANDIDATES**

Fill in all the boxes below. Use CAPITAL LETTERS.

**CENTRE DETAILS**

Centre Number	Centre Name

**COMPUTER REF**

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**CANDIDATE DETAILS**

Surname or Family Name	First Name	Initials of Other Forenames	DATE OF BIRTH							
			D	D	M	M	Y	Y	Y	Y

- Do **NOT** open the booklet until told to do so by the invigilator.
- Answer **ALL** questions.
- Write your answers in the spaces provided on the question paper.
- Additional paper may be used if necessary but you must clearly show your candidate number, centre number and question number(s).
- Use black ink.

**INFORMATION FOR CANDIDATES**

The number of marks is given in brackets at the end of each question or part question.

The total number of marks for this paper is **60**.

You may use a calculator.

<b>FOR EXAMINERS' USE ONLY</b>	
<b>1</b>	
<b>2</b>	
<b>3</b>	
<b>4</b>	
<b>5</b>	
<b>TOTAL = 60</b>	

- 1 Well Ltd and Dear Ltd are in the same industry. The financial statements of both companies for 2014 are as follows:

**Profit and loss accounts for year ended 31 December 2014**

	<b>Well Ltd</b>	<b>Dear Ltd</b>
	£	£
Sales	1 250 000	620 000
Cost of sales	<u>790 000</u>	<u>370 000</u>
Gross profit	460 000	250 000
Operating expenses	<u>350 000</u>	<u>180 000</u>
Net profit	<u>110 000</u>	<u>70 000</u>

The stock (inventory) of Well Ltd and Dear Ltd at 1 January 2014 were £118 000 and £32 000 respectively.

**Balance sheets as at 31 December 2014**

	<b>Well Ltd</b>	<b>Dear Ltd</b>
	£	£
<b>Fixed assets</b>	<u>295 000</u>	<u>140 000</u>
<b>Current assets</b>		
Stock	120 000	30 000
Debtors	200 000	81 000
Bank	<u>0</u>	<u>7 000</u>
	<u>320 000</u>	<u>118 000</u>
<b>Current liabilities</b>		
Creditors	180 000	50 000
Bank overdraft	<u>25 000</u>	<u>0</u>
	<u>205 000</u>	<u>50 000</u>
<b>Net assets</b>	<u>410 000</u>	<u>208 000</u>
<b>Equity</b>	<u>410 000</u>	<u>208 000</u>

- a) Calculate each of the financial ratios listed in the table below for Well Ltd and Dear Ltd for the year ended 31 December 2014.

Give your answer, where appropriate, to two decimal places.

<b>Financial Ratio</b>	<b>Well Ltd</b>	<b>Dear Ltd</b>
Mark-up %		
Net profit margin %		
Current ratio		
Quick (acid test) ratio		
Stock turnover (in number of days)		
Debtor turnover (in number of days)		
Creditor turnover (in number of days)		

[14]

b) Explain what is meant by each of the following terms:

- current assets

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[2]

- current liabilities.

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[2]



- (ii) State and explain **two** additional pieces of information which would enable a more meaningful comparison of the solvency positions of Well Ltd and Dear Ltd for 2014 to be undertaken.

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- 2 Vally Ltd's accounting year ends on 31 December. Extracts from its financial statements for 2014 are as follows:

Issued share capital	£500 000
Bank loan (repayable in 2018)	£150 000
Retained profits at 1 January 2014	£108 000
Net profit for 2014 (after bank loan interest of £13000)	£42 000

Calculate the following financial ratios for Vally Ltd. Give your answers to two decimal places.

- a) (i) Return on equity

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[1]

- (ii) Return on capital employed.

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[3]

b) At a recent board meeting the Managing Director of Vally stated, "I am concerned that shareholders' equity will be adversely affected if the company transfers some of its profit to a general reserve".

(i) What is meant by the term 'equity'?

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[1]

(ii) What is meant by the term 'reserve'?

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[1]

(iii) Explain why you agree or disagree with the Managing Director's concern.

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[2]

(iv) Explain **two** disadvantages to a company of distributing all of its current year's profits as dividends.

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3 Annual financial reporting to a company's shareholders includes an auditor's report.

a) Explain the purpose of an auditor's report.

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b) Explain **two** major components of an auditor's report.

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4 Explain **three** ways in which a statement of cash flows is different from a cash budget.

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