# Check In test

# Accounting and finance

## Questions

1. Which of the following is an internal source of finance for an established company?

(a) Overdraft

(b) Sale of assets

(c) Share issue

(d) Venture capital **[1]**

1. Which of the following is not a valid way to calculate total cost?

(a) average total cost x output

(b) indirect costs + direct costs

(c) margin of safety x unit contribution

(d) variable costs + fixed costs **[1]**

1. A company has budgeted its labour costs to be £24,000 a quarter. Its actual labour
costs were £26,880 a quarter.

The company’s percentage labour variance is:

(a) 3% adverse

(b) 10.7% adverse

(c) 12% adverse

(d) 48% adverse **[1]**

1. Praxo, a cycle manufacturer, currently sells its bicycles to retailers for £140 per cycle. Praxo’s fixed costs are £850,000 per annum. Variable costs are £40 per cycle.

If Praxo increased the selling price of its bicycles to £165 its breakeven point:

(a) would be unaffected

(b) would be 5152 bicycles

(c) would fall by 1700 bicycles

(d) would rise to 6800 bicycles **[1]**

1. A shoe manufacturer is considering investing in a new production line to make handbags. Estimated net return figures are shown in the table below.

|  |  |  |
| --- | --- | --- |
| **Year** | **Estimated net return** | **Discount factor at 15%** |
| **0** | (500 000) | 1.00 |
| **1** | 300 000 | 0.87 |
| **2** | 600 000 | 0.76 |
| **3** | 800 000 | 0.66 |

Using the 15% discount factors shown, the net present value (NPV) of this investment would be:

(a) £745,000

(b) £1,020,000

(c) £1,245,000

(d) £1,745,000 **[1]**

1. Janco Ltd’s accountant has calculated the following figures for 2015:

 Shareholders’ funds an 01/01/2015 = £600.000

 Return on equity for year ended 31/12/2015 = 6.3%

 The profit made by Janco Ltd in 2015 is:

(a) £37,800

(b) £95,238

(c) £562,200

(d) £637,800 **[1]**

1. A company’s cash flow forecast indicates that it is likely to experience cash flow problems in the coming months.

 Which of the following would improve the cash flow position of the company?

(a) Increasing sales

(b) Lengthening debtor days

(c) Reducing debt factoring

(d) Shortening creditor days **[1]**

1. Which of the following would **not** be found in a company’s statement of financial position?

(a) Gross profit

(b) Net assets

(c) Non-current liabilities

(d) Shareholders’ equity  **[1]**

1. In the context of financial accounting, explain what is meant by the term ‘goodwill’. **[2]**

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1. State **two** limitations of breakeven analysis. **[2]**

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1. A laptop manufacturer has the following costs:

	* components = £45 per laptop
	* labour costs = £75 per laptop
	* overheads = £18,000 per annum

Calculate the average unit cost of production if the manufacturer produces 50
laptops per month. **[2]**

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1. Complete the **four** unshaded boxes in the income statement below. **[4]**

|  |  |
| --- | --- |
| **Income statement for PnP Ltd** | **2015** |
| **Revenue** | £360,000 |
| **Cost of Sales** |  |
| **Gross profit** | £240,000 |
| **Expenses** | £160,000 |
| **Operating profit** |  |
| **Finance costs** |  |
| **Profit before tax** | £73,000 |
| **Tax**  | £14,000 |
| **Dividends** | £25,000 |
| **Profit for the year** |  |

## Mark Scheme

| **Question** | **Answer** | **Marks** | **AO** | **Rationale** |
| --- | --- | --- | --- | --- |
|  |  | **(b)** | **1** | **1** | **(a)** An overdraft is obtained from a bank, and therefore is an external source of finance.**(b) Correct answer:** Selling assets they no longer need is an internal source of finance.**(c)** A share issue is available to a company, but it is an external source of finance.**(d)** Again, this involves gaining funds from an external source. |
|  |  | **(c)** | **1** | **1** | **(a)** Equals total cost.**(b)** All costs are included, therefore equals total cost.**(c) Correct answer:** margin of safety x unit contribution calculates profit not total costs.**(d)** All costs are included, therefore equals total cost. |
|  |  | **(c)** | **1** | **2** | **(a)** The candidate correctly calculates 12% but then erroneously divides by 4 because the labour costs are quarterly figures.**(b)** The candidate correctly calculates £2880 but then erroneously uses the wrong base. So 2880/£26,880 x 100 = 10.7%. **(c) Correct answer:** £26,880 - £24,000 = £2880. £2880/£24,000 x 100 = 12%. It is adverse because the labour cost is higher than budgeted. **(d)** The candidate correctly calculates 12% but then erroneously multiplies by 4 because the labour costs are quarterly figures. |
|  |  | **(c)** | **1** | **2** | **(a)** A change in selling price always affects the breakeven point.**(b)** Candidate erroneously divides fixed costs by new selling price: 850,000/165 = 5152.**(c) Correct answer:** Original breakeven point = 850,000/(140-40) =8500. New breakeven point = 850,000/(165-40) = 6800. 8500 – 6800 = 1700. 1700 fewer bicycles are need to breakeven.**(d)** Candidate correctly calculates the new breakeven point of 6800, but this is not an increase from 8500. |
|  |  | **(a)** | **1** | **2** | **(a) Correct answer:** Year 0 £500,000 x 1.00 = (£500,000); Year 1 £300,000 x 0.87 =£261,000; Year 2 £600,000 x 0.76 = £456,000; Year 3 £800,000 x 0.66 = £528,000. NPV = (£500,000) + £261,000 + £456,000 + £528,000 = £745,000.**(b)** Candidate adds up the estimated returns of £12,000,000 and deducts 15%. Therefore £1,200,000 - £180,000 = £1,020,000.**(c)** Candidate correctly calculates years 1-3 but does not deduct year 0.**(d)** Candidate correctly calculates years 1-3 and adds year 0’s £500,000 as if positive. |
|  |  | **(a)** |  **1** | **2** | **(a) Correct answer:** Return on equity = profit for year/shareholders’ funds. Therefore profit for year = £600,000 x 6.3/100 = £37,800.**(b)** Candidate erroneously divides £600,000 by 6.3.**(c)** Candidate correctly calculates £37.800 but then deducts it from shareholder funds.**(d)** Candidate correctly calculates £37.800 but then adds it to shareholder funds. |
|  |  | **(a)** | **1** | **1** | **(a) Correct answer:** Increasing sales will increase cash inflows.**(b)** Lengthening debtor days will delay cash inflows making the cash flow situation worse.**(c)** Debt factoring can be used to gain cash quickly when needed, reducing the use of debt factoring will make a cash flow situation worse.**(d)** Shortening creditor days will mean cash outflows are made earlier, making the cash flow situation worse. |
|  |  | **(a)** | **1** | **1** | **(a) Correct answer:** Net profit is found on a statement of financial position, but not gross profit.**(b)** Net assets (total assets – total liabilities) is found in a statement of financial position.**(c)** Non-current liabilities(long term liabilities)are found in a statement of financial position.**(d)** Shareholders’ equityis shown in a statement of financial position. |

| **Question** | **Answer** | **Marks** | **Guidance** |
| --- | --- | --- | --- |
| **9** |  |  | Up to two marks. | **2**(AO1 2) | Indicative content:* intangible asset
* attempts to value a business’ reputation or brand
* increases the market value of a business
* of importance if a business is being sold as a going concern.

**No** context required.Do **not** award examples.Exemplar response:Goodwill is an intangible asset (1) which attempts to account for the increased worth of a business because of its strong brand or reputation (1).  |
| **10** |  |  | One mark for each correct identification, to a maximum of two identifications. | **2**(AO1 2)  | Indicative content:* assumes that everything produced is sold
* assumes fixed costs remain constant
* assumes the same price is charged to all
* assumes that costs can be accurately calculated
* assumes that costs can be split into fixed and variable
* assumes a single product line
* ignores changes in external factors which affect cost/selling price
* ignores the changing value of money
* quantitative only
* gives no indication of time
* new analysis will be needed if the data changes.

Do **not** award generic answers which apply to all decision-making tools. Eg Do **not** award ‘only as reliable as the data’, ‘only an estimate’, ‘not accurate’, ‘may contain errors’.**No** context required. |
| **11** |  |  | Up to two marks.Award full marks for the correct answer: £150 (irrespective of workings).Otherwise:1 mark for £90,000. | **2**(AO2 2) | Indicative content:Variable costs = £75 + £45 = £120 per laptopAnnual output = 12 x 50 = 600 laptops per annumTotal cost = £18,000 + (£120 x 600) = £90,000Average unit cost = £90,000/600 = £150 |
| **12** |  |  | One mark for a correct identification, up to a maximum of four identifications. \*OFR applies to finance costs only: OFR operating profit - £73,000. | **4**(AO2 4) | Indicative content:* cost of sales: £360,000 - £240,000 = **£120,000**
* operating profit: £240,000 - £160,000 = **£80,000**
* finance costs: £80,000 (OFR) - £73.000 = **£7000**\*
* profit for the year: £73,000 - £14,000 - £25,000 = **£34,000**.
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