UNIVERSITY OF BRADFORD

ACCOUNTING

MAN4275M

10 January 2013 **16:00 – 17:00 hours**

Main

This is a **CLOSED BOOK** examination

SECTION A
Multiple choice questions
(Answer **ALL** questions)

Section B
Answer **ONE** question only from this section

Section A
Answer ALL 10 multiple choice questions on the ANSWER GRID provided.
Worth 20% weighting for the examination. No negative marking.

Question 1

Bear plc has 12 million shares in issue and the last reported earnings per share of 20p. It is expected that debentures will be converted into equity resulting in the issue of a further 3 million shares. What is the diluted earnings per share?

A 6.67p

B 12p

C 15p

D 16p

Question 2

RB uses the reducing balance method of depreciation at a rate of 25%. A non-current asset that cost €120,000 to purchase and a further €40,000 to install was bought 2 years ago. What is the charge for depreciation in relation to this non-current asset for year 3?

A €16,875

B €22,500

C €30,000

D €40,000

Question 3

A higher value for closing inventory leads to which of the following?

i) Lower reported profit

ii) Lower working capital

iii) Higher reported profit

iv) Higher working capital

A (iii) and (iv)

B (i) and (ii)

C (i) and (iv)

D (ii) and (iii)

Question 4

The annual audit for a European quoted company is carried out by:-

A A government audit organisation

B An internal audit team

C An external, not-for-profit audit team

D An external, for-profit audit team

Question 5

Which two ratios, when combined, give the Return on Capital Employed (ROCE)?

A Earnings per share and Current ratio

B Return on Sales and Asset Utilisation

C Earnings per share and Net Book Value

D Return on Sales and Current ratio

Question 6

The traditional view of gearing suggests that at a higher level of gearing than the optimal point a company should:-

A Increase equity and decrease debt

B Decrease equity and decrease debt

C Increase equity and increase debt

D Decrease equity and increase debt

Question 7

On 1 January 2012 inventory totalled £550,000. One year later it was £700,000. This would be shown in the cash flow statement as:

A increase in inventory £150,000

B increase in inventory £700,000

C increase in inventory (£150,000)

D increase in inventory (£700,000)

Question 8

Accounting for Research and Development produces a conflict between which two accounting concepts?

i) Going concern

ii) Accruals

iii) Consistency

iv) Prudence

A (i) and (iii)

B (ii) and (iii)

C (ii) and (iv)

D (iii) and (iv)

Question 9

A company issued its 10% irredeemable debentures at 95. The current market price is 90. The company is paying corporation tax at a rate of 28%.

What is the current net cost of capital per annum of these debentures?

A 11.1%

B 10.0%

C 8.0%

D 7.6%

Question 10

The retained profit figure in the balance sheet for a business is best described as:

A the total of all the net profits (less any losses) since it started

B the profit for the last year of trading

C the profit for the last year of trading less dividends paid

D the total of all the net profits (less any losses and dividends) since it started

Section B

Answer ONE question only from this section

All questions carry equal weighting.

Question 1

Given below is the Statement of Financial position for Gale plc as at 31 December 2012.

		2012
		£'000
Non-current assets		
Land & Buildings (Net Book Value)		124,000
Fixtures & Fittings (Net Book Value)		10,000
Motor vehicles (Net Book Value)		3,000
		137,000
Current assets		
Inventory	51,000	
Accounts receivable	27,100	
Cash	40,000	
	118,100	
Current Liabilities		
Creditors and Accruals	(31,500)	
Net current assets		86,600
Non-current liabilities		
10% Debentures		(160,000)
		63,600
REPRESENTED BY:-		
25p Ordinary Shares		60,000
Retained Profit		3,600
		63,600

Income Statement for the year ended 31 December 2012 for Gale plc.

	2012
	£'000
Turnover	160,000
Cost of Goods Sold	(50,000)
Gross Profit	110,000
Wages	(20,000)
Other Expenses	(60,000)
Exceptional Item	(42,000)
Net Profit/(Loss)	(12,000)
Dividends	(900)
Transfer to Retained Profit	(12,900)

Additional information:

1) The exceptional item relates to the write-off of Goodwill from an acquisition that took place in 2008.
2) Gale plc's share price was £0.65 on 31 December 2012.
   The debentures traded at par value during 2012.

REQUIRED:

a) Using Altman's Z-score, calculate whether it is likely that Gale plc is at risk of failure.

(30% of Marks)

b) Discuss the validity of Altman's failure prediction model by referring to other methods that are commonly used.

(50% of Marks)

Total: 80%

Question 2

Highlight some of ways in which the financial accounts could be legally manipulated.

(40% of marks)

Discuss some of the advantages and disadvantages associated with a stricter rule based system of accounting.

(40% of marks)

Total: 80%

Question 3

Windy plc is a company listed on the London stock Exchange which is looking to expand its operations across Europe. The company has grown rapidly in recent years with annual dividends having see consistent growth as follows:

2008	2009	2010	2011	2012
10.00p	12.00p	13.50p	14.50p	15.75p

The company expects dividends to continue to grow for the foreseeable future in line with this recent dividend profile. Extracts from the company's most recent balance sheet at 31 May 2012 are set out below:

		£'000	£'000
Ordinary £1 shares		14,000	
5.5% £1 irredeemable preference shares	10,000		
Retained earnings		19,400	
Total equity			43,400
7% irredeemable debentures (at nominal value)	50,000		
Total non-current liabilities			50,000

The current ex-dividend ordinary share price is £3.50, whilst the current ex-dividend preference share price is £0.77. The irredeemable debentures have a current ex-interest market price of £86.50 per £100 debenture. The company pays corporation tax at a rate of 28%.

Regarding the company's proposed expansion plans, the chief executive has expressed his preference for any financing requirements to come from increasing debt rather than increasing equity in order to move towards minimising the company's weighted average cost of capital.

REQUIRED:

a) From the information available calculate, using market values, the company's weighted average cost of capital

50% of marks

b) Discuss the preference of the chief executive for any financing requirements to come from increasing debt rather than increasing equity in order to move towards minimising the company's weighted average cost of capital.

30% of marks

Total: 80%