p&l for 3 months ending 31/3/06

Income		TRANS
sales	300	7
c.o.s	-100	7
	200	

Expense		
Depreciatic	33.333	2
Rent	25	5
insurance	10	6
interest	50	8
bad debt e:	40	12
telephone	20	13
advert	30	13
elect	15	13
	223.333	

Profit /Loss **-23.333**

B/S as at 3 B/S

Assets		TRANS
FA		
P&M	7000	1
Additional	180	4
Motor Vehi	400	2
Acc'd depn	-33.333	2
	7546.667	
Inv		
paper	100	3
c.o.s	-100	7
	0	
Cash-capit	10000 (a)	
Loan	10000 (a)	
P&M	-7000	1
Part for pri	-180	4
rent	-25	5
insurance	-40	6
cash sale	200	7
int and cap	-450	8
receipt fron	60	9
repayment	-250	10
repay to Bu	-100	11
	12215	
Prepaymer	30	6
Debtor	100	7
repayment	-60	9
bde	-40	12
Prepaymer	50	11
	80	

TOTAL AS 19841.67

Liab

		TRANS
AP < 1 year		
Van	400	2
repayment	-200	10
Paper	100	3
repayment	-50	10
repayment	-50	11
accruals	65	13
AP>1 year		
Long Term	10000 (a)	
capital	-400	8
Capital		
Cash	10000 (a)	
P&L	**-23.333**	

TOTAL LIA **19841.67**

Cash flow : CFS

		TRANS
Operating		
rent	-25	5
insurance	-40	6
cash sales	200	7
interest	-50	8
receipt fron	60	9
repayment	-250	10
repayment	-100	11
	-205	
Investing		
Printing Eq	-7000	1
part for prir	-180	4
	-7180	
Financing		
Capital inje	10000 (a)	
debt financ	10000 (a)	
part repayr	-400	8
	19600	
CASH IN	12215	

Profit & Loss Account for 3 months ending 31 March 2006

	£	£
Sales		300
less cost of sales		-100
Gross Profit		200
less expenses		-223.333
Net profit		-23.333

Balance Sheet as at 31/3/06

	£	£
Fixed Assets		
P&M		7180
Motor vehi	400	
less acc'd	-33.333	
		366.667
		7546.667
Current Assets		
Cash	12215	
Prepaymer	80	
		12295
Creditors: due within o		-265
Creditors: due within a		-9600
Net assets		**9976.667**
Representing		
Share capital		10000
P&L		-23.333
Shareholders funds		**9976.667**

CFS for 3 months ending 31 March 2006

	£
Cash inflow from operating activities	-205
Cash inflow from investing activities	-7180
Cash inflow from financing	19600
Net cash inflow from operations	**12215**

Answer to q2: fundamental accounting concepts and creative accounting (crib)

a) Define and discuss Going concern, accruals, prudence and consistency (also perhaps mention 'no-offset'). The accounting concepts are so important because if they are not adhered to, the accounts will not reflect the true financial position of the firm. E.g. if going concern is an issue, then the values on the balance sheet are likely to be overstated, as a quick sale of assets may be necessary to satisfy eager creditors; if the accruals concept is not adhered to (with the override of prudence), then the profit and loss account of the company may be seriously inaccurate; if consistency were not followed, comparing numbers from one year to the next becomes meaningless, as it is not comparing like-with-like. Relevance to some creative accounting scandals (lack of principles!). (50%)

B i) Discuss CRUMPET, Co-ordination, Responsibility, Utilisation, Motivation, Planning, Evaluation, Telling
ii) 'Fixed Budget'- prepared at the anticipated level of activity. Budget will be compared with actual results with no adjustments made for changes in activity level. Used especially in service industries where most costs are fixed. 'Flexed Budget' – initially prepared at the anticipated level of activity. Then figures are pro-rated to actual activity level before comparisons are made. Used for variance analysis. 'Rolling Budget'- Aim is to keep a tight control and always have a budget for the next 12 months – Used for any component which needs tight control. Probably too time consuming for the whole business.

(iii) Advantages- Increased motivation, should contain better information (especially in a fast-moving or diverse business, increases managers' understanding and commitment, better communication, frees up senior management time. Disadvantages- Senior managers may resent loss of control, budgets may not be in line with corporate objectives (lack of goal congruence), budget preparation is slower and disputes can arise, figures may be subject to bias if junior managers either try to impress or set easily achievable targets, there may be pseudo participation. (50%)

Q3 PICKERSTAFFE LTD

Report on production of rucksacks

To: The managing director of Bickerstaffe Ltd

From: AN Accountant

Date 5 May 2006

1 **Introduction and recommendation**

This report considers the viability of producing rucksacks over the next 12 years It is recommended that the company undertakes the project at a discount rate of 11%

(a) 2 **Net present values**

Calculations, set out in the appendix, show that at a discount rate of 11% the net present value of the project is £22,372 and it should therefore be undertaken

These calculations are based on the idea that, at a given interest rate, any cashflow in or out at any future time can be translated into a present value Thus at 11%, £1 00 received today would correspond to £1 11 received one year from today and, conversely, £1 00 received one year from today would correspond to (1/1 11) or 90p received today All payments and receipts are evaluated as at now using this method, yielding a net present value which, given that an appropriate interest rate has been selected, is the best measure of the worth of each option to the company

(22½)

3 (a) The market research cost of £5,000 is excluded from the calculation as it is a sunk cost

(b) The cost of the new machine is a cost of doing the project and is included

(c) The opportunity cost of using the warehouse is included, ie. the cash that could be obtained if the project did not go ahead - £30,000 for the sale of the warehouse

(d) Materials cost is included at £5.00 per rucksack, except for the initial 2,000 rucksacks. For these, the opportunity cost of the existing material is included (ie. £9,500), which is the potential selling price if not used The purchase price of £9,000 is ignored as a sunk cost.

(e) Apportioned fixed overheads are ignored as they do not constitute an additional cashflow.

(f) The scrap proceeds are relevant and are therefore included.

To calculate the sales revenue an expected value technique is used (see Appendix). The expected sales figure of 5,000 rucksacks is then used for the NPV calculation. The limitations of this method are as follows:

(a) An expected value is only an average, ie. it would occur in the long run, but not in a 'one-off' situation.

(b) The calculated expected value is not one that can occur (in most cases)

(c) Expected values take no account of risk or attitude to risk

(d) Probabilities have to be estimated in advance, which may be very difficult.

APPENDIX

Expected annual sales volume

	Sales	*Probability*	*Expected*
	6,000	0.6	3,600
	4,000	0.2	800
	3,000	0.2	600
Expected sales pa			5,000

Time		*Cashflow* £	*11% factor*	*PV* £
0	New machine	(25,000)	1	(25,000)
0	Opportunity cost – warehouse	(30,000)	1	(30,000)
1	New machine	(25,000)	0.9009	(22,523)
0	Opportunity cost – materials	(9,500)	1	(9,500)
1	Materials	(15,000)	0.9009	(13,514)
2–12	Materials	(25,000)	5.5915	(139,788)
1–12	Labour	(30,000)	6.4924	(194,772)
1–12	Variable overheads	(20,000)	6.4924	(129,848)
1–12	Revenue	90,000	6.4924	584,316
12	Scrap	10,500	0.2858	3,001
NPV				22,372

(78%)