

ACCOUNTING IN BUSINESS

COURSE ASSESSMENT 1

The final date for submission of this assessment without penalty is

8th September 2014

Assessment will be accepted for marking 14 days prior to the due date

Late Penalty System

Please refer to the Student/Programme Handbook

This module is being delivered through the Manchester Blackboard virtual learning environment.

All assessments must be submitted through Blackboard at:

<http://online.manchester.ac.uk/>

If you have any technical difficulties using blackboard, please visit our support pages at: <http://www.studentnet.manchester.ac.uk/blackboard>

Submitting your Assignment

1. Assignments should be typed, 10 or 11 point font size (Times Roman or similar if possible) double spaced with a 4 cm margin on the right side of the page with the page size specified as UK A4. **All pages must be numbered.**
2. Assignments should be submitted in Microsoft Office Word format (.doc, .docx,). File names should be kept simple and contain only alphanumeric characters (a-z0-9), spaces and underscores (e.g. Valid_filename_1.doc). These must include your **student number** and the **assignment reference**. Files with other characters such as apostrophes, brackets or commas may not be accessible by markers.
3. Assignments may be uploaded only **once**; substitutions are not permitted and you should therefore ensure that the version uploaded is your **final** submission.
4. Please ensure that you include **both** your **student number** and the **assignment reference (AiB/Student Number/July14/1)** in **both** your **file name** and on the **first page of your assignment**. Failure to do this may lead either to a grade not being assigned or being wrongly assigned.
5. If you are experiencing any difficulty in uploading your assignment to Blackboard, please email a copy of the assignment and a screenshot of the error message immediately to your local centre/Student Adviser.

IMPORTANT: ALWAYS RETAIN A COPY OF YOUR ASSIGNMENT

WARNING: Once submitted no substitute assignments will be allowed

Please ensure you include your student number and the assignment reference (**AiB/Student Number/July14/1**) in all submitted assignments and that assignments are paginated. Failure to do this may lead either to a grade not being assigned or being wrongly assigned

Submitting your Assignment

Please make sure you read the following guidance carefully, and then follow it. Failure to do this may mean that parts or even all of your assignment cannot be marked. (We appreciate that some of the following may seem rather detailed and even bureaucratic in places, but we have found that being as clear as possible about points like these at the start can help to avoid a lot of confusion and possible delay when you are completing your assignment, and avoid any faint risk that may not get the full credit for your work that you deserve in your mark.)

1. Your answer to this assignment should be included within a single file, which must be in **Word** (NOT pdf or Excel, since it can be difficult for markers to track workings through spreadsheet formulae). You may wish to prepare your answer using an Excel spreadsheet, but if so, its contents should be copied and pasted into the Word document. This Word document should show an adequate trail of your numeric workings, though you do not need to show the details of the associated formulae that you have used in Excel (see below for more on showing workings).

NB: embedding in a Word document a link to an Excel document, which when clicked merely opens that document in Excel, will **NOT** be accepted.

We regret that answers which are submitted in any format other than Word cannot be marked, and the marks for that part of the assignment will have to be foregone.

2. Assignments should be uploaded as an attachment of a single Word file – there is no need to also paste their contents into Blackboard.
3. Assignments may be uploaded only once; substitutions are not permitted, so please ensure therefore that the version you upload is your final submission.
4. Each of the three financial statements required for part (a) of the assignment should be shown on a separate page. They should be positioned at the start of your answer to Part (a), before your workings, and in the sequence:- cash budget, *then* budgeted income statement, *then* budgeted Statement of Financial Position (balance sheet) .
5. Your Income Statement and SOFP each be kept within a single page; your Cash Budget can be spread over up to two pages (i.e. a maximum of 4 pages in total for the financial statements which part (a) of the assignment requires).
6. However if you do spread your Cash Budget over two pages, it should be split *vertically* rather than *horizontally*, i.e. please show the first few rows for all 12 months (plus the total for the year as a whole), and then the remaining rows on the next page; NOT January-June on one page and then July-December on the next. It should be easily legible to someone reading it on a screen, with all columns visible on a single screen without needing to scroll across (the columns show the name of the item, each month and the annual total – it doesn't matter if not all rows are visible at the same time and a reader has to scroll down to read them all).

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7. You may decide to present your Cash Budget in landscape format rather than portrait, to allow space for all the columns that it will require. All statements, including this, should be clearly legible and easily readable on-screen (and therefore horizontal across the page).
8. At the end of this briefing templates are provided for the three budgeted financial statements. Please use these formats in submitting your work as this simplifies the marking process and helps us to get your mark and feedback to you promptly.
9. Answers should be easily readable on a computer screen, and readable within a single screen. Please make sure that your font size is legible, and that none of your content is lost by spilling over the edge of the screen.
10. Your mark for Part (a) will be based entirely on your final results (the quantities that you report in your financial statements), but you are still encouraged to provide a trail of your workings as a matter of good practice as this will be essential in future assessments, in particular the exam. You will receive feedback on the quality of your workings, although for this assignment these will not affect your mark.
11. However your workings should be appropriate for purpose, and kept concise and to the point. What is needed is not a lengthy verbal description of what you have done and why, but a simple trail of your numeric workings (with just enough text to explain what they were) so that the marker can see how you have arrived at the quantities in your final financial statements from the quantities stated in the assignment briefing. As one student studying the module in a past semester expressed it very succinctly, the purpose of these workings is to help hand-hold the reviewer through the results rather than to provide all the preparer's own working calculations, which will probably have been in much more detail.
12. These workings should be kept within a maximum of 3 pages, i.e. there is an overall maximum of 7 pages for Part A including the 4 pages for the financial statements themselves.
13. Please note that as this is an assessed exercise, the module e-facilitator can respond only to queries about methods and principles, and cannot discuss or provide any guidance on specific items or amounts in the information which follows.

P.S. my apologies if this all seems rather bureaucratic and rule-bound! However long experience has convinced us that it's best to make sure that everything's quite clear at this stage, before you start investing your time in completing your assignment, in order to minimise any risk of misunderstanding what's needed which could mean you wasting time and possibly losing marks.

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ACCOUNTING IN BUSINESS

COURSE ASSESSMENT 1

Assignment – Collyhurst Cleaners

Part A (60 marks)

Eddie Law has negotiated with a well-known international manufacturer of popular vacuum cleaners the right to assemble and sell a specific product from its range, and he has set up a company to operate this business which will trade as Collyhurst Cleaners.

He is preparing a business plan that he can take to banks and venture capitalists to seek finance and to help guide him in the process of setting up and starting up the business, and has asked you for your help with the financial part of this (i.e. a budget). As a starting basis, he has put together some initial forecasts and estimates which are outlined below.

He plans to start the business next 1st January, though the first few months will be spent in preparation before his business is in a position to make any sales to customers. He plans to sell to three distinct market sectors:-

- the main national retail clothing chains;
- an exporter who will buy Collyhurst's products and sell them into a number of foreign markets;
- direct sales to local retail customers through his own shop which will be attached to his factory. He plans to open the shop from 9:00 to 19:00 seven days per week, i.e. 70 hours per week.

Since these three segments have very different characteristics, he is planning to set different prices and credit terms for each of them:-

	national retail chains	exporter	factory shop
Selling price per cleaner *	£70	£80	£100
Credit terms	1 month	2 months	no credit (cash sales only)
Expected proportion of total sales	40%	35%	25%

Sales: Eddie estimates that in May (his first month's trading) he will sell 1,000 cleaners in total. In following months he expects the market demand for his cleaners to grow at a rate of 4% per month until December, and this will be reflected in his sales. After December the business will be mature and there will be no further increase in demand (i.e. December will be the final month in which his sales will increase over the previous month). He is not anticipating any seasonality in demand.

Eddie will buy the **components** (i.e. raw materials) which are needed to produce his products for £40 per product. Since his is a new business the manufacturer is not prepared to allow him any trade credit, so he has to plan to pay all their invoices at the time of

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purchase. He plans to keep sufficient inventory at all times of components to cover the following month's trading, although as he plans to carry out the final assembly process on a just-in-time basis he will not be carrying any inventory of either finished products or work-in-progress.

Staff costs are forecast to be:-

factory: 7 people at £12 per hour each, each working a 40-hour week

shop: 3 people at any one time, at an average of £6 per hour each

Staff wages will be paid at the end of each week.

The company will also have to pay a further 30% of this amount in additional on-costs in respect of social security and pensions contributions, and these will be payable 1 month in arrears. To help with preparing the business to start trading and for staff training, the staff will be employed as from the start of March.

Energy & water: When the business starts trading, the factory will consume energy and water at the rate of £3 per product. The shop will also consume energy and water at the rate of £1 for each hour that it is open for business.

In the period January to April, the factory and shop will each consume energy & water to the value of:-

	factory	shop
January	£400	£50
February	£400	£50
March	£1,000	£200
April	£2,000	£200

Energy/water costs are payable 1 month in arrears.

Premises: rent of £2,000 per month will be payable quarterly in advance, plus a deposit equal to one quarter's rent (at the full rate) as soon as Eddie moves in, i.e. on January 1st. This will be returnable only when Eddie eventually vacates the premises. The landlord has agreed not to charge any rent for the period January to April, so the first payment of rent will be needed only at the end of April for the period May-July, with subsequent quarterly payments for August-October, November-January, etc. The rental agreement will expire 8 years after he first takes occupancy of the building, when it will revert back to the landlord.

Refurbishments: Eddie will need to have some significant work done on the building before he can start business, and this will be done by an outside contractor over the period January-March. The total cost will be £75,000, payable in equal instalments on the first day of each of these months.

Business rates (NB: these are a local government tax on property in the UK) are charged at a rate of £18,000 per annum. The landlord has agreed to absorb this cost up to the end of the current UK government financial year, which ends on 31st March, but Eddie will have to bear this cost as from 1st April onwards. The charge for the year is payable in 10 equal monthly instalments, from April to January inclusive.

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Various **plant and equipment** with a total cost of £80,000 will be delivered in March and installed in the factory in April, in time to start trading on May 1st. The suppliers will allow 1 month's credit after the date of delivery. This is expected to last for 5 years before it will need replacing, with an estimated disposal value of approximately 10% of its original cost.

A **delivery van** will be purchased in April in time for the start of business on 1st May. It will cost £20,000, to be paid in full at the time of purchase. Eddie plans to keep it for 4 years and then sell it for an estimated £4,000.

Marketing & advertising:- Eddie plans to spend £12,000 on marketing and advertising in April to launch the business, then maintain an ongoing spend at the rate of £1,000 per month indefinitely into the future. This will have to be paid for as it is incurred, on the first day of each month (i.e. there is no credit).

Financing: Eddie has £60,000 of his own savings which he plans to invest in the business, and he also plans to borrow a further £140,000 on a long-term loan at an interest rate of 6% per annum. The interest will be payable monthly and the loan will be repayable in full after 7 years. He will take up this loan in two equal instalments, on 1st January and 1st May.

If he finds he needs any further finance beyond the above, his bank manager has assured Eddie that his bank will make unlimited overdraft facilities available to him.

NB: a bank **overdraft** is a form of short-term financing which is not universal across the whole of the world, but is common in the UK and many other countries especially for SME's (small and medium-sized enterprises). Basically it simply means that your bank has agreed to allow you to run your current (checking) account with a negative cash balance up to a pre-agreed limit. Overdrafts are not a separate source of new finance – if in your cash budget you find that the cash balance is negative at any time, simply show it as this. If at the year-end the balance is negative, it should be included in the budgeted SOFP as a current liability. (NB: for simplicity, assume for this assignment that this overdraft is interest-free).

Tax will be due on any profits that the business makes, at the rate of 20%. This will be payable 9 months in arrears after his year-end, i.e. the tax due on his profits in Year 1 (if there are any) will be payable on 30th September in Year 2.

NB: assume that the taxable profit is the same as the pre-tax profit shown by your Income Statement, i.e. that there are no adjustments to be made in the tax computations.

Eddie will handle personally all the business's other activities including its overall management the general management. He has sufficient personal savings to live on to cover his personal living expenses for the immediate future so he does not plan to withdraw any of the business's profits as a **dividend** during its first year.

Assumptions

For simplicity and to keep this exercise manageable, make the following working assumptions:-

- assume that months 1 and 2 in each quarter (January, February, April, May etc.) are of 4 weeks, and the third month (March, June, September, December) is a 5-week month;
- assume 52 weeks in each year;
- ignore any interest that could be payable on an overdraft (i.e. assume that it is interest-free);
- include in Cost of Goods Sold only the purchase costs of the components (do not also include any other costs such as those incurred during the assembly process);
- round any odd amounts to the nearest whole pound (do not show pence);
- the data which is provided in this briefing is intended to be sufficient for you to complete your assignment. However if you consider that anything is missing and you do not have all the information that you need for this then make a reasonable assumption and state what you have assumed, then carry on.

Required: Part A

(a) prepare, for Year 1 from January to December inclusive, based on the data and forecasts above:-

- (i) a cash budget (NB: not a historic cash flow statement) for the period January to December on a month-by-month basis. This must show **both**
 - a. the total cash in or out for both each month of the year and for the year as a whole, for each item of receipts and payments, and
 - b. the closing balances of cash both for each month and at the year-end.

NB: as explained under 'Financing' above, assume that Eddie will be able to borrow as much as he needs to through a bank overdraft if this is necessary to be able to complete the cash budget.

- (ii) a budgeted income statement for the whole of the period January to December (not month-by-month), following the usual financial accounting conventions (e.g. the accruals principle, and concerning the recognition of assets).
- (iii) a budgeted statement of financial position (balance sheet) as at 31st December.

Templates are provided in the Appendix below which indicate the structure and layout of these statements. To simplify and speed up the marking process please follow these templates, including the sequence in which different items are dealt with.

The various different items should each be shown individually in your budgeted financial statements (as indicated in the example provided in the Appendix and in the textbook by Scott (e.g. in Illustrations 11.10 and 11.11 on pages 314 and 317 respectively). Please do not add together a number of different items into an aggregate total such as (for example) 'administrative expenses' as this makes what you have done less transparent and harder to follow.

Since the statements are required only for internal purposes rather than for external publication and in any case this company is too small to be required to follow IFRS, their detailed requirements are not directly relevant, though you should wherever relevant aim to follow good generally accepted accounting practice.

60 marks

Part B

Calculate the following ratios from the quantities stated in the financial statements* that you produced in Part A:-

Return on capital employed

Cash conversion cycle (including its constituent elements)

Gearing (defined here as long-term borrowings divided by the total of long-term borrowings plus total equity)

Interest cover

Current ratio

Briefly explain, in no more than 50 words for each ratio what it tells an analyst about this business and its prospects of long-term success.

NB: it *is* important in this Part to provide a clear numeric trail of your workings in calculating your ratios.

* note that your ratios should be calculated solely from the quantities that you have calculated and included in the financial statements that you produced for part (a); i.e. as if you were an external investment analyst working solely from a company's externally published financial statements without any access to the inside knowledge of how its business works, such as how far its sales are on credit terms or for cash. This information was relevant in completing Part A in order to prepare these financial statements in the first place, and would be available to those people inside the business who are responsible for its management, but would not normally be known to outsiders.

20 marks

Total 80 marks

NB: your final mark (out of 80) will be automatically re-calculated as a percentage (by multiplying by 100%/80) for inclusion on the School's student records database.

Please ensure that your student number and the following reference are provided on the Assignment that you submit:-

[Student Number]/AiB/July 2014/A1

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Appendix

See the suggested formats below for a simple Cash Budget, Income Statement, and Balance Sheet (Statement of Financial Position). Please note that these are not exhaustive examples of everything that should appear in such statements, but are merely simple examples to advise you on the format to use. You should use your Study Guide and textbook for more comprehensive information.

Cash Budget for a 6-month period *							
	Jan	Feb	Mar	Apr	May	Jun	Total
Cash Inflows							
Type of cash inflow e.g. investments in the business by owners and lenders respectively							
Type of cash inflow e.g. cash received from customers (distinguishing between each category)							
etc.							
	-----	-----	-----	-----	-----	-----	-----
Total Cash In							
	-----	-----	-----	-----	-----	-----	-----
Cash Outflows							
Type of cash outflow e.g. wages paid to factory staff							
Type of cash outflow e.g. wages paid to shop staff							
Type of cash outflow e.g. on-costs (social security etc.) re factory staff							
etc., etc.							
	-----	-----	-----	-----	-----	-----	-----
Total Cash Out							
	-----	-----	-----	-----	-----	-----	-----
Cash surplus/(deficit) for the month							
Opening cash balance							
	-----	-----	-----	-----	-----	-----	-----
Closing cash balance							
	-----	-----	-----	-----	-----	-----	-----

* The above template covers only 6 months, to keep this example brief. The cash budget that you will need to do in order to complete this assignment will need to cover a full 12-month year. This can be spread over 2 pages, though if so it should be split *vertically* rather than *horizontally*, i.e. please show the first few rows for all 12 months (plus the total for the year as a whole), then on the next page the remaining rows; NOT January-June on one page then July-December on the next.

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Income Statement for a period

	£	£
Sales Revenue		x
less Cost of Goods Sold		x
(NB: raw materials only)		
Gross Profit		x
less Expenses*:-		
Staff costs [itemised]	x	
Energy/water [itemised]	x	
Deprecn. [itemised by asset]	x	
etc., etc.	x	x
Operating Profit		x
less Interest		x
Pre-tax profit		x
less Tax		x
Profit available for shareholders		x
		=====

* In your Income Statement, please itemise separately the various elements rather than aggregate them – e.g. separate lines for each of factory wages, factory on-costs, shop wages and shop on-costs respectively, rather than a single total for staff costs.

Statement of Financial Position as at a date

	£	£	£
	Cost	Acc. Depn.	Net
Non-current assets			
Plant	x	x	x
Motor Vehicles	x	x	x
	x	x	x
	===	===	
Current Assets			
Inventory		x	
Trade Receivables		x	
Prepayments		x	
Bank (if bank balance is positive)		x	
		x	
Current Liabilities			
Trade Payables		x	
Accruals		x	
Other short-term liabilities		x	
Overdraft (if bank balance is negative)		x	
		x	
Net Current Assets			x
			x
Long-term Capital			
Share Capital			x
Retained Profits (or Losses)			x
Shareholders' Funds			x
Long-term Debt			x
			x

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