

## EDEXCEL- Financial Awareness

1. You are a group of investment bankers. A client came and requested that he wants to invest £20,000 for a year. You have the following information available
  - a. The bank pays an annual interest rate of 8 % on all deposit.
  - b. The share of Microsoft Company is £32 today. In one year's time, the share price is expected to be £ 35.
  - c. The exchange rate of £1 = \$ 1.8 today. The exchange rate is expected to be £1 = \$ 1.6 in one year.
  - d. There is no tax to be paid on interest earned from depositing in bank. Other incomes (e.g. shares or exchange rate) will be taxed at 25%.

Where should your client invest the money? In the bank deposit, in Microsoft shares or in US currencies. What would you advise your client to do? And why? Show your calculations as well.

**(15 marks)**

2. Carlisle Limited is a company that buys and sells computers. On 1 June 2003 it had 200 unsold computers in stock, each valued at £800. During June, the company received deliveries as follows:

Date	Computers purchased	Unit Cost
9th	100	£900
18th	200	£1,000
22nd	100	£1,100

Also in June, the sales of computers were as follows:

Date	Computers Sold
13th	200
19th	250
27th	100

- (a) Calculate the value of closing stock using the following methods:
  - (i) LIFO (5 marks)
  - (ii) FIFO (5 marks)
- (b) Describe, how LIFO and FIFO affect the cost of goods sold and the valuation of closing stock:
  - (i) when purchase prices are rising (3 marks)
  - (ii) when purchase prices are falling. (2 marks)

**(Total 15 marks)**

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3. The following information relates to Carnforth Plc for the year ended 30 September 2003. The beginning cash balance was £128.

	£
Sales	570
NET Profit	101
COGS	250
Depreciation charge for the year	105
Sale of Fixed Asset	51
Dividends paid	47
Tax paid	20
Cash received from new loan	120
Increase in stock	38
Increase in creditors	62
Share issue	45
Increase in debtors	91
Interest paid	94
Purchase of fixed assets	64

- (a) Prepare the following cash flow report

- i. CFO (9 marks)
- ii. CFI (2 marks)
- iii. CFF (2 marks)
- iv. Ending cash balance (2 marks)

4.

- a. The main characteristic of accounting is that it should be material, reliable, comparable and understandable. Explain briefly what each of those words mean in accounting. (7 marks)
- b. There are 3 types of business activities.
  - i. Operating Activities
  - ii. Investing Activities
  - iii. Financing ActivitiesExplain what these activities are. (8 marks)