

- 4 Venture Capital is considering the purchase of a mining business, Primary Metals. The following information is available at 30 September 2022.

Primary Metals  
Summary Statement of Profit or Loss and Other Comprehensive Income  
for the year ended 30 September 2022

	£	£
Revenue		820 000
Cost of sales	400 000	
Wages and salaries	250 000	
Loan interest	25 000	
Depreciation	40 000	
Rent	18 000	
General expenses	<u>75 000</u>	
		<u>(808 000)</u>
Profit for the year		<u>12 000</u>

**Additional information at 30 September 2022**

- (1) Capital £300 000
- (2) 5% five-year bank loan £500 000

**Required**

- (a) Calculate the following for Primary Metals. Give your answers to the nearest two decimal places.
  - (i) Gross profit as a percentage of revenue. (2)
  - (ii) Profit for the year as a percentage of revenue. (2)
  - (iii) Percentage return on capital employed. (2)

If Venture Capital purchases Primary Metals, it has the following proposals.

- Purchase volumes of materials will increase by 50%. These will **all** be purchased at a 25% price reduction for materials from mines that are not controlled by any government legislation.
- The gross profit as a percentage of revenue will be 40%.
- 50 staff will be made redundant saving £100 000 per year. The remaining staff will be awarded a 4% increase in wages and salaries.
- Borrowing will increase by £200 000 with a 6% five-year bank loan to purchase new non-current assets.
- Depreciation will increase to £65 000 per annum. Rent will remain unchanged.
- General expenses will be reduced by £15 000 per annum by buying from the cheapest supplier rather than buying locally.

### Required

- (b) Prepare the Forecast Statement of Profit or Loss and Other Comprehensive Income for Primary Metals, for the year ended 30 September 2023, if the purchase goes ahead. (10)
- (c) Calculate the following forecasts for the year ending 30 September 2023, to the nearest two decimal places.
- (i) Profit for the year as a percentage of revenue. (2)
  - (ii) Percentage return on capital employed. (2)
- (d) Explain **four** ways in which the principles of **social accounting** might **not** be applied if the Venture Capital proposals are implemented. (4)
- (e) Evaluate the proposed purchase from the viewpoint of Primary Metals. (6)

**(Total for Question 4 = 30 marks)**