



ICM

SEPTEMBER 2015

ACCOUNTING, PURCHASING & COST CONTROL

Instructions to candidates:

- Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
- Answer Question 1 and any other THREE questions
- Question 1 carries 40% of the marks, all other questions carry 20% of the marks. Marks for each question are shown in []
- Non-programmable calculators are permitted in this examination

1. You work as the accountant of a company called Kumbie Ltd, and have just taken out the trial balance as at 31 August 2015:

	£ dr	£ cr
£1 Ordinary share capital		200,000
5% Debentures		100,000
Profit and loss account (01 09 14)		249,000
Long-term bank loan		95,000
Sales		1,840,000
Purchases	1,170,000	
Inventory (stock) at 01 09 14	39,000	
Accounts receivable (debtors)	77,000	
Accounts payable (creditors)		35,000
Business rates	47,000	
Insurances	38,000	
Energy costs	59,000	
Marketing expenses	71,000	
Loan interest paid	6,000	
Payroll costs	239,000	
Land and buildings at cost	600,000	
Equipment at cost	220,000	
Equip. depreciation (01 09 14)		45,000
Bank		3,000
Cash	1,000	
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	2,567,000	2,567,000
	=====	=====

Notes at 31 August 2015:

- Inventory (stock) was valued at £42,000
- Insurances prepaid amounted to £2,000
- Payroll expenses owing amounted to £6,000
- The debenture interest is due for payment on 1 September 2015
- The equipment is to be depreciated by 25% on cost
- The directors wish to provide £39,000 for taxation
- A dividend of 15 pence per share has been declared

TASKS

- Prepare the income statement (trading and profit and loss account) for the year ended 31 August 2015. [12]
- Prepare the position statement (balance sheet) as at 31 August 2015. [12]
- Calculate the following:
 - Gross profit as a percentage of sales
 - Net profit after tax as a percentage of sales
 - The current ratio
 - The acid test ratio [2 each]

Question 1 continues overleaf

- d) Analyse the financial performance of Kumbie Ltd over the financial year. [8]
 Note – the equivalent ratios for the previous financial year were as follows:
 Gross profit percentage 26% Net profit before tax percentage 2.9%
 Current ratio 2.9:1 Acid test ratio 1.7:1

2. Lapasta is a restaurant business with three restaurants. The results for the year ended 31 August 2015 were as follows:

Restaurant	A	B	C	Total
	£000	£000	£000	£000
Sales/revenue	470	750	280	1,500
Food & beverage costs	(110)	(190)	(90)	(390)
Payroll costs per restaurant	(80)	(100)	(80)	(260)
Overheads of each restaurant	(60)	(80)	(55)	(195)
Head Office expenses				(300)

All the purchasing, accounting, marketing, and personnel activities are carried out from the Head Office.

The Head Office costs are apportioned to the three restaurants in proportion to sales.

The directors are concerned about the profitability of the business, and are considering the possibility of closing one of the restaurants.

TASKS

- a) Prepare an analysed profit and loss statement in which you show the gross and net profit of each restaurant, and for the whole business. [8]
 b) Advise the directors in respect of their possible closure decision. (You may ignore the impact of any redundancy costs). [7]
 c) The following is the budgeted data for a leisurewear retailer:

	£
Total sales	600,000
Total variable costs	300,000
Total fixed costs	200,000

TASK

Sketch and label a break-even graph from this data. [5]

3. a) Explain the process of preparing a budget. [6]
 b) Explain the benefits of using budgetary control. [10]
 c) An employee has worked 36 hours at £10.00 per hour, AND 5 hours overtime at £12.50 per hour. The first £100 of these wages is tax free. The remainder is subject to statutory deductions totalling 25% of the taxable pay.

TASKS

- i Calculate the gross pay. [2]
 ii Calculate the net pay. [2]

4. You are thinking of buying a hotel. You have carried out substantial research and have narrowed your choice to two possibilities – Hotel A or Hotel B. You have established the following future cash flows:

	A	B
	£	£
Initial cost	3,500,000	3,500,000
Net surplus returns:		
Year 1	900,000	850,000
Year 2	1,000,000	950,000
Year 3	1,000,000	1,000,000
Year 4	1,100,000	1,300,000
Year 5	1,200,000	1,400,000

The average cost of borrowing is 8%.

NPV (DCF) factors at 8%:

Year 0	1.000
Year 1	.926
Year 2	.857
Year 3	.794
Year 4	.735
Year 5	.681

TASKS

- a) Calculate the payback period for both A and B. [3]
- b) Calculate the accounting rate of return for A and B. [3]
- c) Calculate the NPV for A and B. [8]
- d) Explain which of the hotels you would invest in. [6]
5. Write notes on FOUR of the following:
- a) The importance of bookkeeping
- b) Verification of goods received
- c) VAT
- d) Standard costing
- e) The principal purposes of a trial balance
- f) Depreciation
- g) A cash budget
- h) The THREE main components of cost [5 each]