



ICM

SEPTEMBER 2015

ACCOUNTING

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 WOX Ltd, and have just taken out the trial balance as at 31 August 2015:

	£dr	£cr
£1 Ordinary share capital		100,000
Long-term loan (5%)		200,000
Profit and loss account (01 09 14)		300,000
Sales		2,075,000
Purchases	1,460,000	
Inventory (stock) (01 09 14)	85,000	
Accounts receivable (debtors)	86,000	
Prov. for doubtful debts (01 09 14)		4,000
Accounts payable (creditors)		50,000
Business rates	52,000	
Insurances	43,000	
Energy costs	88,000	
Marketing expenses	47,000	
Audit fee	10,000	
Communication expenses	65,000	
Loan interest paid	5,000	
Premises	520,000	
Equipment at cost	140,000	
Equipment depreciation (01 09 14)		40,000
Payroll costs	176,000	
Bank		9,000
Cash	1,000	
	<u>2,778,000</u>	<u>2,778,000</u>
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Notes at 31 August 2015:

- Inventory (stock) was valued at £90,000
- Insurance prepaid amounted to £2,000
- Payroll costs owing amounted to £7,000
- Half a year's loan interest is still outstanding
- The directors have decided to adjust the provision for doubtful debts to £5,000
- The equipment is to be depreciated by 20% on cost
- The directors decide to provide £20,000 for taxation
- The directors have declared a dividend of 21p per share

TASKS

- Prepare the income statement (trading and profit and loss account) for the year ended 31 August 2015. [13]
- Prepare the position statement (balance sheet) as at 31 August 2015. [12]
- Explain the following terms:
 - Control accounts
 - Statutory deductions from wages
 - Share capital [5 each]

continued overleaf

2. A business makes a single product. The business plans to make and sell 150,000 units in the next budget year. It has the capacity to make up to 190,000 units without incurring additional fixed cost expenditure. Details of budgeted costs and revenues are as follows:

	£
Direct material cost per unit	50
Direct wage cost per unit	30
Variable overhead cost per unit	60
Selling price per unit	200
Total fixed cost	5,500,000

TASKS

- a) Calculate the existing budgeted profit. [3]
 - b) Calculate the existing budgeted break-even point. [2]
 - c) Calculate the profit if the selling price was set at £220 and 140,000 units were made and sold. [3]
 - d) Calculate the profit if the selling price was set at £190 and 160,000 units were made and sold. [3]
 - e) Calculate the profit if the design and quality of the product was enhanced by spending £15 more per unit on material; AND spending £100,000 more on advertising; and then making and selling 185,000 units at a price of £205 each. [5]
 - f) Sketch a break-even chart based on the original budgeted data. [4]
3. The following data relates to two different companies, which operate in the same business sector:

	A	B
	£000	£000
Sales in year (all on credit)	4,400	8,100
Cost of sales for the year	2,650	3,950
Total expenses for the year	1,300	1,900
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Opening stock value	180	220
Closing stock value	200	240
Closing debtors	390	510
Closing total current assets	640	830
Closing total current liabilities	390	540

TASKS

- a) For EACH company calculate the following:
 - i Gross profit to sales percentage
 - ii Net profit to sales percentage
 - iii Expenses to sales percentage
 - iv Stock turnover in days
 - v Debtor collection period in days
 - vi Current ratio
 - vii Acid test ratio [2 each]
 - b) Analyse the financial performance of the two companies. [6]
4.
 - a) Explain why a large business should operate an efficient budgetary control system. [10]
 - b) Explain the principal sources of long-term business finance available to a large company. [10]
5. Write notes on FOUR of the following:
- a) Stock control
 - b) Accounting standards
 - c) The role of a bookkeeper
 - d) The payroll system
 - e) Cash budgets
 - f) 'Users' of financial statements [5 each]