



# ICM

DECEMBER 2016

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 THREE other 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 ACL Ltd and have just taken out the trial balance as at 30 November 2016:

	£dr	£cr
Sales		2,040,000
Purchases	1,440,000	
Inventory (01/12/15)	40,000	
Accounts receivable	52,000	
Accounts payable		44,000
Business rates and insurance	73,000	
Communication expenses	38,000	
Energy costs	59,000	
Advertising	46,000	
Audit fee	6,000	
Motor expenses	48,000	
Buildings at cost	500,000	
Equipment at cost	100,000	
Equipment depn. (01/12/15)		40,000
Payroll costs	234,000	
Bank	4,000	
Cash	1,000	
£1 Ordinary share capital		100,000
Profit and loss account (01/12/15)		417,000
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	2,641,000	2,641,000
	=====	=====

Notes at 30 November 2016:

- Inventory was valued at £44,000
- Advertising prepaid amounted to £2,000
- Payroll costs owing amounted to £6,000
- The directors have decided to write off £3,000 of the total debtors as a bad debt
- The equipment is to be depreciated by 20% on cost
- The directors wish to provide £38,000 for taxation
- A dividend of 15p per share has been agreed

**TASKS**

- Prepare the income statement (trading and profit and loss account) for the year ended 30 November 2016. [12]
- Prepare the position statement (balance sheet) as at 30 November 2016. [12]
- Explain how the accounting treatment of a multiple ownership business (e.g. a partnership) will differ from that of a single ownership business (i.e. a sole trader). [8]
- Explain the benefits of preparing and monitoring a cash budget. [8]

*continued overleaf*

2. The following data relates to two different companies:

	A	B
	£000	£000
Sales in year	4,300	6,200
Cost of sales for the year	1,800	2,200
Total expenses for the year	1,850	2,100
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Opening stock value (inventory)	130	140
Closing stock value (inventory)	150	160
Closing debtors	200	240
Closing total current assets	900	1,100
Closing total current liabilities	450	800

**TASKS**

- a) For EACH company calculate the following:
- i The gross profit to sales percentage
  - ii The net profit to sales percentage
  - iii The expenses to sales percentage
  - iv The stock turnover ratio in days
  - v The debtor collection period in days
  - vi The current ratio
  - vii The acid test ratio [2 each]
- b) Analyse the financial performance of the two companies. [6]

3. a) Explain how a stock control system for a large business should work. [10]  
 b) A leisure attraction has the following budgeted costs for the next season:

	£
Fixed costs	600,000
Variable cost per visitor	6

- i Calculate the budgeted profit if the average entrance price was £15 and there were 90,000 visitors. [2]
- ii Calculate the budgeted profit if the average entrance price was £12 and there were 140,000 visitors. [2]
- iii Calculate the break-even number of visitors if the average entrance price was £12. [3]
- iv Explain what **fixed costs** are. [3]

4. The following data relates to a project your firm is thinking of investing in:

	£
Cost	1,500,000
Net cash inflows:	
Year one	350,000
Year two	550,000
Year three	850,000
Year four	750,000
Year five	250,000

The cost of capital is expected to be 7%.

Discount factors	6%	7%	8%
Year one	0.9434	0.9346	0.9259
Year two	0.8900	0.8734	0.8573
Year three	0.8396	0.8163	0.7938
Year four	0.7921	0.7629	0.7350
Year five	0.7473	0.7130	0.6806
Year six	0.7050	0.6663	0.6302

**TASKS**

- a) Calculate the payback period. [2]
- b) Calculate the accounting rate of return. [3]
- c) Calculate the net present value. [4]
- d) Explain whether or not the project appears viable or not. [5]
- e) Explain the term **cost plus pricing**. [6]

5. Write notes on FOUR of the following:
- a) Overhead absorption
  - b) A payroll system
  - c) VAT
  - d) The purpose of a trial balance
  - e) Depreciation of fixed assets
  - f) The importance of monitoring petty cash payments
  - g) The use of spreadsheets in finance and accounting

[5 each]