DECEMBER 2016

ACCOUNTING

Instructions to candidates:

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

1. You work as the accountant of a company called Ric Reb Ltd and have just taken out the trial balance as at 30 November 2016:

	£dr	£cr
£1 Ordinary share capital		200,000
5% Preference shares		100,000
Profit and loss account (01 12 15)		149,000
Long-term bank loan		60,000
Sales		2,104,000
Purchases	1,450,000	
Inventory (01 12 15)	75,000	
Accounts receivable	84,000	
Prov. for doubtful debts (01 12 15)		5,000
Accounts payable		62,000
Business rates	56,000	
Insurances	47,000	
Energy costs	72,000	
Advertising	51,000	
Audit fee	8,000	
Payroll costs	203,000	
Loan interest paid	5,000	
Communication expenses	29,000	
Buildings at cost	500,000	
Equipment at cost	140,000	
Equipment depreciation (01 12 15)		50,000
Bank	8,000	
Cash	2,000	
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	2,730,000	2,730,000
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Notes at 30 November 2016:

- Inventory was valued at £79,000
- Insurance prepaid amounted to £3,000
- Payroll costs owing amounted to £7,000
- Advertising expenses owing amounted to £6,000
- The directors have decided to adjust the provision for doubtful debts to £7,000
- The equipment is to be depreciated by 20% pa on cost
- The directors wish to provide £46,000 for taxation
- The directors have declared the preference dividend
- The ordinary share dividend will be 15 pence per share

Question 1 continues overleaf

TASKS

a) Prepare the income statement (trading and profit and loss account) for the year ended 30 November 2016. [13]

b) Prepare the position statement (balance sheet) as at 30 November 2016. [12]

c) Explain the following terms:

i Stock control [6]

ii Statutory deductions from wages [4]

iii Accounting standards [5]

2. A business makes a single product. The business plans to make and sell 120,000 units in the next budget year. It has the capacity to make up to 150,000 units without incurring additional fixed cost expenditure. Details of budgeted costs and revenues are as follows:

	£
Direct material cost per unit	35
Direct wage cost per unit	25
Variable overhead cost per unit	50
Selling price per unit	180
Total fixed cost	3,900,000

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 £190, and 106,000 units were made and sold. [3]

d) Calculate the profit if the selling price was set at £170, and 140,000 units were made and sold. [3]

e) Calculate the profit if the packaging and quality of the product was improved by spending £12 more per unit on material; and spending £150,000 more on advertising; and then making and selling 138,000 units at a price of £195 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)	4,900	7,600
Cost of sales for the year	2,700	3,500
Total expenses for the year	1,250	1,500
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Opening inventory (stock) value	200	240
Closing inventory (stock) value	220	260
Closing debtors (accounts receivable)	360	500
Closing total current assets	690	760
Closing total current liabilities	380	530

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

vi Current ratio

vii Acid test ratio [2 each]

b) Analyse the financial performance of the two companies. [6]

4. a) Explain the benefits of an efficient budgetary control system. [14]

b) Explain the fundamental reasons for continually monitoring cash flow via the use of cash budgeting. [6]

5. Write notes on FOUR of the following:

a) Depreciation

b) Long-term finance

c) The role of an external auditor

d) An overdraft

e) The principal ‘users’ of accounting information

f) A trial balance [5 each]