ICM

JUNE 2016

ACCOUNTING, PURCHASING & COST CONTROL

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 GLC Ltd and have just taken out the trial balance as at 31 May 2016:

	£dr	£cr
Sales		1,400,000
Purchases	960,000	
Inventory (stock 01 06 15)	33,000	
Accounts receivable (debtors)	53,000	
Accounts payable (creditors)		38,000
Business rates	24,000	
Insurances	22,000	
Energy costs	37,000	
Advertising	31,000	
Audit fee	5,000	
Payroll costs	174,000	
Communication expenses	24,000	
Buildings at cost	600,000	
Equipment at cost	120,000	
Equipment depn. (01 06 15)		40,000
Bank	6,000	
Cash	1,000	
£1 Ordinary share capital		100,000
Profit and loss account (01 06 15)		512,000
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	2,090,000	2,090,000
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Notes at 31 May 2016:

- Inventory was valued at £36,000
- Business rates prepaid amounted to £2,000
- Payroll costs owing amounted to £5,000
- The directors have decided to write off £2,000 of the total debtors as a bad debt
- The equipment is to be depreciated by 25% on cost
- The directors wish to provide £24,000 for taxation
- The directors have declared a dividend of 10p per share

TASKS

a) Prepare the income statement (trading and profit and loss account) for the year ended 31 May 2016. [12]

b) Prepare the position statement (balance sheet) as at 31 May 2016. [12]

c) Explain the benefits of using spreadsheets in accounting. [6]

d) Evaluate the benefits of monitoring cash flow by using a cash budget. [10]

continued overleaf

2. The following data relates to two different restaurants:

	A	B
	£000	£000
Sales in year	3,300	5,400
Cost of sales for the year	1,600	2,000
Total expenses for the year	1,500	2,100
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Opening stock value	26	32
Closing stock value	30	34
Closing creditors amount	34	38
Closing total current assets	39	42
Closing total current liabilities	41	46

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 creditor turnover ratio in days
   - vi The current ratio
   - vii The acid test ratio [2 each]

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

3. You currently operate a small visitor attraction in a popular tourist area. There are many other attractions in the area so the competition for visitors is tough. The accounts for the year just completed are as follows:

	£
Sales income	490,000
Variable costs	(300,000)

Contribution	190,000
Fixed costs	(110,000)

Profit	80,000
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You have a number of proposals to evaluate for next year.

PROPOSAL ONE: increase your price by 10%, however you would expect your sales volume to decrease by 20%.

PROPOSAL TWO: decrease your price by 5%, you would then expect your sales volume to increase by 15%.

PROPOSAL THREE: invest £40,000 more in advertising (a fixed cost) and keep prices the same. You would then expect the sales volume to increase by 25%.

Note: ignore the impact of inflation.

TASKS

a) Calculate the budgeted profit as per Proposal One. [5]

b) Calculate the budgeted profit as per Proposal Two. [5]

c) Calculate the budgeted profit as per Proposal Three. [5]

d) i Sketch a diagram which shows how **fixed costs** behave. [2]
   ii Sketch a diagram which shows how **variable costs** behave. [3]

4. a) Explain the THREE main components of cost. [9]

   b) Explain the importance of using capital investment methods to evaluate possible long-term high-cost projects. [11]

5. Write notes on FOUR of the following:
   - a) VAT
   - b) Stock control systems
   - c) The distinctive features of limited companies
   - d) The double entry system
   - e) Depreciation of fixed assets
   - f) Variance analysis
   - g) Apportionment of overheads
   - h) Budgetary control [5 each]