ICM

JUNE 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 for a client named Omar and have prepared the following trial balance as at 31 May 2016:

	£dr	£cr
Capital as at 01 06 15		296,000
Long-term loan		60,000
Sales		1,980,000
Purchases	1,260,000	
Inventory (stock) as at 01 06 15	68,000	
Accounts receivable (debtors)	87,000	
Provision for doubtful debts		2,000
Accounts payable (creditors)		58,000
Business rates	47,000	
Insurances	39,000	
Energy costs	62,000	
Motor expenses	33,000	
Marketing expenses	76,000	
Loan interest	3,000	
Payroll costs	202,000	
Buildings at cost	450,000	
Vehicles at cost	110,000	
Vehicle depreciation 01 06 15		40,000
Bank		23,000
Cash	2,000	
Drawings	20,000	
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	2,459,000	2,459,000
	=======	=======

Notes at 31 May 2016:

- Inventory (stock) was valued at £64,000
- Business rates prepaid amounted to £3,000
- Marketing expenses prepaid amounted to £4,000
- Payroll costs owing amounted to £11,000
- The accountant/auditor's fee outstanding is estimated to be £6,000
- In view of the continuing difficult trading condition you have reviewed the debtors (accounts receivable) outstanding and suggest that Omar writes off £4,000 as bad debts
- After writing off the bad debt you are to increase the provision for doubtful debts account to £3,000
- The vehicles are to be depreciated by 25% on cost

Question 1 continues overleaf

TASKS

a) Prepare Omar's income statement (trading and profit and loss account) for the year ended 31 May 2016. [13]

b) Prepare Omar's position statement (balance sheet) as at 31 May 2016. [11]

c) Calculate TWO profit ratios. [4]

d) Calculate TWO liquidity ratios. [4]

e) Analyse the current financial position of the business. [8]

You have been made aware of some of the ratios from last year (y/e 31 05 15) –
gross profit to sales % 37.8%; net profit to sales % 18.9%; current ratio 2.5:1; acid test ratio 1.5:1.

2. Kolo plans to open a retail clothing store on 1 January 2017. He will put £165,000 in the bank as capital. His plans are as follows:

- On 1 January to buy and pay for premises £93,000, shop fixtures £18,000 and a vehicle £14,000
- To employ two staff each to get a salary of £1,600 per month, paid on the 26th of each month (ignore tax and NI)
- To buy, and pay for, the following quantities of garments:
  Jan. – Mar. inclusive 300 items (at an average cost of £8 per item)
  April – June inclusive 400 items (at an average cost of £9 per item)
- To sell the following quantity of goods:
  Jan. – Mar. inclusive 200 items (at an average price of £20 per item)
  April – June inclusive 380 items (at an average selling price of £25 per item)
- 80% of sales will be on a cash basis, the other 20% will be sold on a one month credit basis
- Kolo will draw £1,300 per month as drawings
- Kolo plans to spend £2,500 on a 'grand opening' on 1 January 2017
- Kolo plans to spend £2,000 per month on advertising – he will be granted one month's credit from the advertising agency
- Other expenses are estimated to be £1,900 per month, payable one month in arrears
- Kolo plans to depreciate the fixtures at the rate of 10% pa, and the vehicle at the rate of 25% pa

TASKS

a) Prepare a cash-flow budget for the period 1 January 2017 to 30 June 2017. [10]

b) Comment on the budgeted cash flow position of Kolo. [5]

c) Explain the major purposes of preparing and monitoring cash budgets. [5]

3. A fast food pizza restaurant offers a small range of pizzas to its customers. Details of the cost structure are as follows:

	£
Cost of ingredients per pizza	1.40
Variable labour cost per pizza	1.00
Variable overhead cost per pizza	1.10
Average menu price per pizza	10.30
Fixed cost per week	3,200

The maximum number of pizzas that can be made and sold in a week is 1,600.
The budgeted number of pizzas to be made and sold in a week is 1,000.

TASKS

a) Calculate the budgeted weekly profit. [3]

b) Calculate the number of pizzas they need to sell to break even. [2]

c) Sketch a break-even graph – based on the budgeted number of pizzas sold. [4]

d) Calculate the profit if 1,500 pizzas are made and sold. [3]

e) Outline the potential sources of long-term business finance available to the owner of the restaurant. [8]

continued overleaf

4. You have obtained the following data in respect of two firms:

	X	Y
	£000	£000
Sales (all on credit)	600	900
Cost of sales	260	350
Total expenses	120	160
Closing debtors	35	40
Average value of stock	21	23

TASKS

a) For BOTH companies calculate the total expenses to sales ratio. [4]
b) For BOTH companies calculate the debtor collection period. [4]
c) For BOTH companies calculate the rate of stock turn. [4]
d) Comment briefly on the efficiency of BOTH firms. [4]
e) Explain why it is important to monitor business performance. [4]

5. Write notes on FOUR of the following:

a) Control accounts
b) The principal 'users' of accounting information
c) Stock control
d) FIFO
e) The payroll process
f) Double entry bookkeeping [5 each]