



# ICM

JUNE 2016

BUSINESS FINANCE & BOOKKEEPING

**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 any FOUR questions
- c) All questions carry equal marks. Marks for each question are shown in [ ]
- d) Non-programmable calculators are permitted in this examination

1. The following is the trial balance of Sediui at 31 May 2016:

	£dr	£cr
Advertising expenses	8,000	
Balance at bank	3,000	
Accounts receivable (debtors)	34,000	
Accounts payable (creditors)		35,000
Sales		512,000
Purchases	201,000	
Communications expenses	28,000	
Insurance	21,000	
Carriage inwards	2,000	
Returns outwards		1,000
Energy costs	25,000	
Payroll costs	126,000	
Discounts allowed	3,000	
Business rates	22,000	
Inventory at 01 06 15	11,000	
Interest on loan	2,000	
Long-term loan		50,000
Drawings	28,000	
Premises	400,000	
Equipment	100,000	
Capital 01 06 15		416,000
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	1,014,000	1,014,000
	=====	=====

Notes at 31 May 2016:

- The value of inventory was £12,000
- Insurance prepaid amounted to £2,000
- Payroll costs owing amounted to £6,000
- Ignore depreciation

**TASKS**

- a) Prepare the income statement (trading and profit and loss account) for the year ended 31 May 2016. [13]
  - b) Prepare the position statement (balance sheet) as at 31 May 2016. [12]
2. a) Explain the following:
- i The details that need to be considered by a lender in respect of a loan application from a potential client.
  - ii The types of insurance that the owner of a clothing store should obtain.
  - iii The main services that a bank can offer a business. [6 each]
- b) Explain the basics of the double entry bookkeeping system. [7]

*continued overleaf*

3. a) Explain the principal sources of finance available to a sole trader. [8]  
 b) Explain the importance of a cash budget to a business. [6]  
 c) Explain the term **insurable interest**. [6]  
 d) Explain the term **pooling of risks**. [5]

4. The following are the summarised final accounts of a trader:

Profit and loss account (income statement)	£000
Sales	1,900
Cost of sales	(1,000)
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Gross profit	900
Expenses	(490)
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Net profit	410
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Balance sheet (position statement)	
Fixed assets (non-current assets)	550
Inventory (stock)	120
Accounts receivable (debtors)	140
Cash and bank	20
Accounts payable (creditors)	(330)
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Total capital	500
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NOTE: the value of the opening stock (inventory) was £110,000.

#### TASKS

- a) Calculate the following ratios:
- Gross profit to sales percentage
  - Net profit to sales percentage
  - The rate of stock turnover
  - The expenses to sales percentage
  - The current ratio
  - The acid test
- [3 each]
- b) Comment briefly on the financial performance of the business. [7]  
 For information the equivalent ratios for the previous year were: gross profit percentage 51%; net profit percentage 24%; the rate of stock turnover 9.8; current ratio 1.2:1; acid test 0.9:1.

5. Write short notes on FIVE of the following:

- Working capital
  - The role of an actuary
  - A petty cash system
  - Debentures
  - Day books
  - VAT (sales tax)
  - Equity finance
- [5 each]