MARCH 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 other THREE 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 PMQ Ltd, and have just taken out the trial balance as at 29 February 2016:

	£dr	£cr
Bank	2,000	
Cash	1,000	
£1 Ordinary share capital		100,000
5% Debentures		100,000
Profit and loss account (01 03 15)		158,000
Long-term bank loan		150,000
Sales		1,570,000
Purchases	995,000	
Inventory	62,000	
Accounts receivable	95,000	
Accounts payable		43,000
Business rates	51,000	
Insurance expenses	29,000	
Energy costs	47,000	
Marketing	55,000	
Loan interest paid	6,000	
Payroll costs	236,000	
Communication expenses	22,000	
Buildings at cost	460,000	
Equipment at cost	100,000	
Equip. depreciation (01 03 15)		40,000
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	2,161,000	2,161,000
	=======	=======

Notes at 29 February 2016:

- Inventory was valued at £60,000
- Insurance expenses prepaid amounted to £3,000
- Payroll costs owing amounted to £7,000
- The debenture interest is due for payment on 1 March 2016
- The equipment is to be depreciated by 25% on cost
- The directors wish to provide £34,000 for taxation
- The directors have declared a dividend of 18p per share

Question 1 continues overleaf

TASKS

a) Prepare the income statement for the year ended 29 February 2016. [12]

b) Prepare the position statement as at 29 February 2016. [12]

c) Calculate the following:
   - i The Gross profit as a percentage of sales
   - ii Net profit after tax as a percentage of sales
   - iii The current ratio
   - iv The acid test ratio [2 each]

d) Comment on the financial performance of PMQ Ltd over the financial year. [8]

Note: the equivalent ratios for the previous financial year were as follows:
Gross profit percentage 34%, Net profit before tax percentage 7.4%, Current ratio 1.9:1, Acid test ratio 1.1:1

2. A restaurant compiled the following simplified profit and loss account for the year ended 29 February 2016:

	£
Sales (63,000 covers)	1,764,000
Cost of food and beverage (V)	(819,000)
Employee costs (V)	(252,000)
Advertising and marketing costs (F)	(160,000)
Other expenses (inc. depreciation) (F)	(210,000)

Profit before tax	323,000

Note: (V) = variable costs, and (F) = fixed costs.

TASKS

a) Calculate the following:
   - i The average receipt per cover (customer) [1]
   - ii The average employee cost per cover (customer) [1]
   - iii The average contribution per cover (customer) [2]

b) It is possible to enlarge the restaurant area. This would increase the other expenses (F) by 20%, however, they would not spend more on advertising. It is thought that such a move would increase the number of covers to 75,000. Prepare a revised simplified profit and loss account based on this scenario. [8]

c) Explain the term **fixed costs**, giving appropriate examples. [4]

d) Explain the term **variable costs**, giving appropriate examples. [4]

3. The Music Museum is a tourist attraction. The Music Museum includes a café and a shop. The following are the receipts and payments for the year ended 29 February 2016:

	£(payments)	£(receipts)
Entrance fees		465,000
Café sales		390,000
Shop sales		180,000
Café cost of sales	108,000	
Shop cost of sales	52,000	
Advertising	100,000	
Business rates and insurance	60,000	
General wages	250,000	
Communication expenses	40,000	
Other expenses	20,000	
Depreciation	60,000	

The business is divided into three profit centres: M – the museum section, C – the café, and S – the shop. The cost of advertising is wholly allocated to M whilst all other overheads are to be apportioned 70% to M, 20% to C and 10% to S.

TASKS

a) Prepare an analysed profit statement. The profit statement must show the gross profits of C (the café) and S (the shop), and also the net profits of M (the museum section) and C and S. [12]

b) Explain the relevance of **budgetary control**. [8]

continued overleaf

4. You are thinking of buying a hotel. You have carried out a great deal of research and have two possible choices. C (The Chococo) and J (The Jelico). You have established the following future cash flows:

	C	J
	£	£
Initial cost	3,500,000	3,500,000
Net surplus returns:		
Year 1	730,000	820,000
Year 2	760,000	850,000
Year 3	790,000	860,000
Year 4	970,000	900,000
Year 5	1,000,000	930,000

The average cost of borrowing is 8%.

NPV (DCF) factors at 8%:

Year 0	1.000
Year 1	.926
Year 2	.857
Year 3	.794
Year 4	.735
Year 5	.681

TASKS

a) Calculate the payback period for both C and J. [3]
b) Calculate the accounting rate of return for C and J. [3]
c) Calculate the NPV for C and J. [8]
d) Explain, with reasons, which of the hotels you would invest in. [6]

5. Write notes on FOUR of the following:

a) Stock control systems
b) A payroll system
c) Standard costing
d) The reasons for recording all financial transactions
e) VAT
f) A limited company
g) Sources of business finance
h) Accounting concepts [5 each]

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