



ICM

MARCH 2016

ACCOUNTING

Instructions to candidates:

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

1. You work as the accountant of a company called SLR Ltd, and have just taken out the trial balance as at 29 February 2016:

	£dr	£cr
£1 Ordinary share capital		100,000
Profit and loss account (01/03/15)		186,000
Long-term bank loan		180,000
Sales		1,830,000
Purchases	1,240,000	
Inventory (01/03/15)	36,000	
Accounts receivable	81,000	
Prov. for doubtful debts (01/03/15)		2,000
Accounts payable		74,000
Business rates	44,000	
Insurances	37,000	
Energy costs	59,000	
Communication expenses	33,000	
Audit fee	10,000	
Advertising	62,000	
Loan interest paid	9,000	
Payroll costs	182,000	
Premises at cost	440,000	
Equipment at cost	220,000	
Equipment depreciation (01/03/15)		80,000
Bank		2,000
Cash	1,000	
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	2,454,000	2,454,000
	=====	=====

Notes at 29 February 2016:

- Inventory was valued at £39,000
- Business rates prepaid amounted to £4,000
- Advertising expenses owing amounted to £6,000
- The directors have decided to adjust the provision for doubtful debts to £5,000
- The equipment is to be depreciated by 20% on cost
- The directors wish to provide £20,000 for taxation
- The directors have declared a dividend of 12p per share

TASKS

- Prepare the income statement (trading and profit and loss account) for the year ended 29 February 2016. [13]
- Prepare the position statement (balance sheet) as at 29 February 2016. [12]
- Explain the principal features of the following sources of finance:
 - Ordinary shares
 - Leasing
 - Debentures [5 each]

continued overleaf

2. a) The following information relates to the time sheet of Abdul Manof:

	Basic time	Overtime
Monday	7 hours	1.0 hours
Tuesday	7 hours	2.0 hours
Wednesday	7 hours	2.0 hours
Thursday	7 hours	1.5 hours
Friday	7 hours	nil
Saturday	nil	4 hours

Abdul earns a basic rate of pay of £10 per hour and is paid overtime at time and a quarter.

Income tax is payable at the rate of 20% on gross earnings.

National Insurance is payable at the rate of 10% on gross earnings.

TASKS

Calculate:

- i Abdul's gross pay. [2]
- ii Abdul's net pay. [2]

b) The budgeted data as regards a potential new product is as follows:

	£
Proposed selling price per unit	70
Budgeted variable cost per unit	40
Fixed costs associated with the product	360,000
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Budgeted production and sales is 25,000 units.

TASKS

- i Calculate the budgeted profit. [3]
 - ii Calculate the break-even point in units. [2]
 - iii Sketch a fully labelled break-even graph, based on the above data. [6]
- c) Describe the payroll process. [5]

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)	4,400	9,100
Cost of sales for the year	2,500	4,400
Total expenses for the year	1,200	2,100
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Opening inventory value	180	340
Closing inventory value	200	370
Closing debtors (accounts rec.)	350	520
Closing total current assets	540	900
Closing total current liabilities	280	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) Comment on the financial performance of the two companies. [6]

4. a) Explain the importance of stock control. [6]
- b) Explain the importance of cash budgeting. [8]
- c) Explain the role of accounting standards. [6]

5. Write notes on FOUR of the following:

- a) Types of budget
- b) The 'users' of financial statements
- c) A trial balance
- d) Depreciation of fixed assets
- e) Working capital
- f) FIFO
- g) The role of an auditor [5 each]