



ICM

MARCH 2017

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 YGZ Ltd and have just taken out the trial balance as at 28 February 2017:

	£dr	£cr
£1 Ordinary share capital		100,000
5% Debentures		100,000
Profit and loss account (01/03/16)		363,000
Long-term bank loan		80,000
Sales		1,710,000
Purchases	1,160,000	
Inventory (stock) at 01/03/16	44,000	
Accounts receivable (debtors)	76,000	
Accounts payable (creditors)		35,000
Business rates	42,000	
Insurances	35,000	
Energy costs	59,000	
Marketing expenses	72,000	
Loan interest paid	6,000	
Payroll costs	237,000	
Premises at cost	500,000	
Equipment at cost	200,000	
Equipment depn. (01/03/16)		40,000
Bank		4,000
Cash	1,000	
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	2,432,000	2,432,000
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Notes at 28 February 2017:

- Inventory (stock) was valued at £45,000
- Insurance prepaid amounted to £3,000
- Payroll costs owing amounted to £6,000
- The debenture interest for year ending 28 February 2017 is due for payment on 2 March 2017
- The equipment is to be depreciated by 25% on cost
- The directors wish to provide £19,000 for taxation
- The current company policy is not to pay any dividends

Question 1 continues overleaf

TASKS

- a) Prepare the income statement (trading and profit and loss account) for the year ended 28 February 2017. [12]
- b) Prepare the position statement (balance sheet) as at 28 February 2017. [12]
- c) Calculate the following:
- i Gross profit as a percentage of sales
 - ii Net profit before tax as a percentage of sales
 - iii The current ratio
 - iv The acid test ratio [2 each]
- d) Analyse the financial performance of YGZ Ltd over the financial year. [8]

Note – the equivalent ratios for the previous financial year were as follows:

Gross profit percentage 27%, net profit before tax percentage 5.1%, current ratio 3.12:1, acid test ratio 1.8:1

2. a) Explain the importance of a rigorous system of ordering and receiving stock. [7]
- b) Explain the payroll system. [7]
- c) Explain the importance of a cash budget. [6]

3. Poky Ltd is a tourist attraction. The attraction also includes a café and a shop. The following are the receipts and payments for the year ended 28 February 2017:

	£(payments)	£(receipts)
Entrance fees		395,000
Café sales		200,000
Shop sales		80,000
Café cost of sales	70,000	
Shop cost of sales	25,000	
Advertising	60,000	
Business rates and insurance	50,000	
General wages	240,000	
Communication costs	30,000	
Depreciation costs	40,000	
Other expenses	20,000	

The business is divided into three profit centres: A – the attraction itself, C – the café, and S – the shop. The cost of advertising is wholly allocated to A, whilst all other overheads are to be apportioned 80% to A, 15% to C and 5% 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 A (the attraction) and C and S. [12]
- b) Explain the importance of budgetary control to an organisation. [8]

4. a) You are thinking of buying a hotel. You have carried out substantial research and have arrived at the following forecast data:

	£
Initial cost	2,900,000
Net surplus returns:	
Year 1	700,000
Year 2	800,000
Year 3	900,000
Year 4	1,000,000
Year 5	1,200,000
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

- i Calculate the payback period. [2]
 - ii Calculate the accounting rate of return. [2]
 - iii Calculate the NPV. [4]
 - iv Explain briefly if you think that the hotel is a viable investment. [4]
- b) A small fast food outlet has the following cost structure:

	£
Average selling price per customer	10
Average variable cost of sales per customer	4
Fixed costs per week	900
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Budgeted number of customers per week	200

TASKS

- i Calculate the budgeted profit/loss per week. [3]
- ii Calculate the break-even number of customers required per week. [2]
- iii Sketch a diagram to represent fixed costs. [2]
- iv Give an example of a fixed cost. [1]

5. Write notes on FOUR of the following:

- a) Cost plus pricing
- b) Double-entry bookkeeping
- c) VAT
- d) Standard costing
- e) The principal purposes of a trial balance
- f) A partnership agreement
- g) Flexible budgets
- h) Bad debts

[5 each]