



ICM

MARCH 2017

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 Akua and have just taken out the trial balance as at 28 February 2017.

	£dr	£cr
Capital as at 01 03 16		217,000
Long-term loan		60,000
Sales		1,810,000
Purchases	1,040,000	
Inventory as at 01 03 16	54,000	
Accounts receivable	79,000	
Prov. for doubtful debts		2,000
Accounts payable		66,000
Business rates	58,000	
Insurances	45,000	
Energy costs	49,000	
Motor expenses	21,000	
Payroll costs	237,000	
Loan interest	3,000	
Advertising	42,000	
Buildings at cost	500,000	
Vehicles at cost	50,000	
Vehicle depreciation 01 03 16		30,000
Bank	6,000	
Cash	1,000	
	----- 2,185,000 =====	----- 2,185,000 =====

Notes at 28 February 2017:

- Inventory was valued at £59,000
- Insurance prepaid amounted to £3,000
- Payroll costs owing amounted to £8,000
- The accountant/auditor's fee outstanding is estimated to be £5,000
- In view of the financial situation you have reviewed the accounts receivable outstanding and suggest that Akua writes off £1,000
- After writing off the bad debt you suggest that the provision for doubtful debts should be increased to £6,000
- The vehicles are to be depreciated by 20% on cost

Question 1 continues overleaf

TASKS

- a) Prepare Akua's income statement (trading and profit and loss account) for the year ended 28 February 2017. [13]
- b) Prepare Akua's position statement (balance sheet) as at 28 February 2017. [11]
- c) Calculate TWO profit ratios. [4]
- d) Calculate TWO liquidity ratios. [4]
- e) The following ratios are what Akua hopes to achieve:
- i Gross profit to sales percentage 50%
 - ii Net profit to sales percentage 10%
 - iii Current ratio 1.6:1
 - iv Acid test 1:1

TASK

Comment on the financial performance of the business over the year. [8]

2. Mr Lucky has recently taken a very generous redundancy package and plans to open a retail shop on 1 October 2017. He will put £120,000 in the bank as capital. His plans are as follows:
- On 1 October to buy and pay for premises £95,000, shop fixtures £10,000, and a vehicle £10,000
 - To employ two staff, each to get a salary of £1,500 per month, paid on the 25th of each month (ignore tax and NI)
 - To buy the following quantity of garments:
 - Oct. – Dec. inclusive 500
 - Jan. – Mar. inclusive 600
 - To sell the following quantity of garments:
 - Oct. – Dec. inclusive 400
 - Jan. – Mar. inclusive 600
 - The average cost per garment will be £8, and the suppliers will be paid in the same month
 - The average selling price per garment will be £24. 80% of the sales will be on a cash basis. The other 20% will be on one month's credit
 - Mr Lucky will draw £1,800 per month as drawings
 - Mr Lucky plans to spend £3,000 on advertising in October, and then a further £500 per month in November and December
 - Other expenses are estimated to be £1,400 per month, payable in the month following
 - Mr Lucky plans to depreciate the fixtures at the rate of 10% pa, and the vehicle at the rate of 20% pa

TASKS

- a) Prepare a cash-flow budget for the period 1 October 2017 to 31 March 2018. [10]
- b) Comment on the budgeted cash-flow position of Mr Lucky. [5]
- c) Explain the advantages of preparing and maintaining cash budgets. [5]

3. a) Outline the potential sources of finance available to a large public limited company. [10]
- b) Akira budgets to be able to make and sell 50,000 items of a product at £125 per unit. The cost data is as follows:

	£
Direct material cost per unit	26
Direct labour cost per unit	32
Variable overhead cost per unit	40
Fixed costs allocated to the product	£840,000
Maximum possible production without incurring extra fixed costs is 60,000 units.	

TASKS

- i Calculate the budgeted profit. [3]
- ii Calculate the budgeted break-even point in units. [2]
- iii Calculate the profit if by spending £50,000 more on promoting the product AND increasing the price to £135 per unit 48,000 units were made and sold. [5]

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

	A	B
	£000	£000
Sales (all on credit)	400	800
Cost of sales	190	360
Total expenses	110	180
Closing debtors	35	40
Average value of stock	17	20

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 briefly the importance of using financial ratios (or other performance indicators) to monitor business performance. [4]

5. Write notes on FOUR of the following:

- a) A break-even graph
- b) Accounting standards
- c) Stock control
- d) 'Users' of accounting information
- e) Bookkeeping
- f) The payroll process

[5 each]