



ICM

JUNE 2017

ACCOUNTING, PURCHASING & COST CONTROL

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

- You work as the accountant of a company called ULX Ltd and have just taken out the trial balance as at 31 May 2017.

	£dr	£cr
Bank	5,000	
Cash	1,000	
£1 Ordinary share capital		40,000
£1 Preference shares (3%)		200,000
5% Debentures		100,000
Profit and loss account (1/06/16)		144,000
Long-term bank loan		100,000
Sales		1,510,000
Purchases	940,000	
Inventory (1/06/16)	52,000	
Accounts receivable	87,000	
Accounts payable		38,000
Business rates	47,000	
Insurances	26,000	
Energy costs	52,000	
Marketing	59,000	
Loan interest paid	6,000	
Payroll costs	235,000	
Communication expenses	22,000	
Buildings at cost	540,000	
Equipment at cost	100,000	
Equip. depreciation (1/06/16)		40,000
	-----	-----
	2,172,000	2,172,000
	=====	=====

Notes at 31 May 2017:

- Inventory was valued at £55,000
- Marketing expenses prepaid amounted to £2,000
- Payroll costs owing amounted to £5,000
- The debenture interest is due for payment on 1 June 2017
- The equipment is to be depreciated by 20% on cost
- The directors wish to provide £32,000 for taxation
- The directors have declared the preference dividend, payable on 13 June 2017

Question 1 continues overleaf

TASKS

- a) Prepare the income statement for the year ended 31 May 2017. [12]
- b) Prepare the position statement as at 31 May 2017. [12]
- c) Calculate the following:
 - i 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 ULX Ltd over the financial year.

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

Gross profit percentage 33%

Net profit before tax percentage 6.9%

Current ratio 2:1

Acid test ratio 1:1

[8]

2. A restaurant compiled the following budgeted data for the upcoming year:

	£
Sales (20,000 covers)	600,000
Cost of food and beverage (V)	(240,000)
Employee costs (V)	(100,000)
Advertising and marketing costs (F)	(60,000)
Other expenses (inc. depreciation) (F)	(100,000)

Profit before tax 100,000

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

TASKS

- a) Calculate the following:
 - i The average receipt per cover (customer) [2]
 - ii The average employee cost per cover (customer) [2]
 - iii The average contribution per cover (customer) [2]
- b) Calculate the break-even number of covers. [3]
- c) Sketch and fully label a break-even graph based on the above data. [5]
- d) Explain the importance of controlling the purchase and storage of stock. [6]

3. The pottery museum is a tourist attraction aimed at visitors and locals. The pottery museum includes a café and a shop. The following are the receipts and payments for the year ended 31 May 2017:

	£(payments)	£(receipts)
Museum entrance fees		400,000
Café sales		260,000
Shop sales		250,000
Café cost of sales	90,000	
Shop cost of sales	80,000	
Entry hall running costs	100,000	
Café overheads	50,000	
Shop overheads	40,000	
Museum overheads	90,000	
General overheads	350,000	

The business is divided into three profit centres: P – the pottery museum, C – the café, and S – the shop.

The entry hall running costs are to be treated as the cost of sales as regards profit centre P.

General overheads are to be apportioned 70% to P, 20% to C, and 10% to S.

TASKS

- a) Prepare an analysed profit statement. The profit statement must show the gross AND net profits of P (the museum), C (the café) and S (the shop) and for the whole business. [10]
- b) A café worker has worked 35 hours at £9 per hour, AND 4 hours of overtime at £12 per hour. The first £120 of these wages is tax free. The remainder is subject to statutory deductions totalling 25% of the taxable pay.

TASKS

- i Calculate the gross pay. [3]
- ii Calculate the net pay. [3]
- c) State FOUR matters that should be included in a partnership agreement. [4]

continued overleaf

4. You are thinking of buying a hotel. You have carried out a great deal of research and have two possible choices. A (The Angel) and B (The Bloomfield). You have established the following future cash flows:

	A	B
	£	£
Initial cost	3,800,000	3,800,000
Net surplus returns:		
Year 1	920,000	1,010,000
Year 2	950,000	1,050,000
Year 3	1,080,000	1,050,000
Year 4	1,300,000	1,100,000
Year 5	1,400,000	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

- Calculate the payback period for both A and B. [3]
- Calculate the accounting rate of return for A and B. [3]
- Calculate the NPV for A and B. [8]
- Explain which of the hotels you would invest in. [6]

5. Write notes on FOUR of the following:

- VAT
- Cash budgets
- Variance analysis
- The use of spreadsheets for accounting purposes
- The principal purposes of a bank reconciliation
- Bookkeeping
- Sources of business finance

[5 each]