



ICM

JUNE 2017

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

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

	£dr	£cr
Sales		1,940,000
Purchases	1,150,000	
Inventory (01/06/16)	45,000	
Accounts receivable	84,000	
Provision for doubtful debts (01/06/16)		2,000
Accounts payable		36,000
Business rates and insurance	59,000	
Communication expenses	42,000	
Energy costs	56,000	
Marketing expenses	41,000	
Payroll costs	225,000	
Debenture interest paid	2,500	
Buildings at cost	580,000	
Vehicles at cost	150,000	
Vehicle depreciation (01/06/16)		40,000
Bad debts written off in the year	6,000	
Bank	4,000	
Cash	1,000	
£1 Ordinary share capital		200,000
5% Debentures		100,000
Retained profit (01/06/16)		127,500
	-----	-----
	2,445,500	2,445,500
	=====	=====

Notes at 31 May 2017:

- Inventory was valued at £44,000
- Business rates prepaid amounted to £2,000
- Payroll costs owing amounted to £7,000
- Half a year's debenture interest is outstanding
- The directors have reviewed the aged debtor schedule and have decided to adjust the provision for doubtful debts to £3,000
- The vehicles are to be depreciated by 20% on cost
- The directors wish to provide £41,000 for taxation

Question 1 continues overleaf

TASKS

- a) Prepare the income statement (trading and profit and loss account) for the year ended 31 May 2017. [13]
- b) Prepare the position statement (balance sheet) as at 31 May 2017. [12]
- c) Calculate the current ratio. [2]
- d) Calculate the acid test ratio. [2]
- e) You are aware that the liquidity ratios for the previous accounting year were as follows:
Current ratio: 2:1 Acid test: 1:1
Analyse the liquidity position of VOM Ltd as at 31 May 2017. [5]
- f) Explain the importance of maintaining an efficient stock control system. [6]

2. The following data relates to two different companies, which are in the same industry sector:

Company	A	B
	£000	£000
Sales (all on credit)	520	980
Cost of sales	260	390
Total expenses	180	280

TASKS

- a) Calculate the gross profit for BOTH companies. [4]
- b) Calculate the net profit for BOTH companies. [4]
- c) Calculate the expenses to sale ratio for BOTH companies. [4]
- d) Explain briefly which of the two companies you think is the most successful. [4]
- e) Outline the benefits of using financial/performance indicators. [4]

3. a) The following information relates to the time sheet of Vijay:

	Basic time (hours)	Overtime (hours)
Monday	7	2
Tuesday	7	2
Wednesday	7	0
Thursday	7	2
Friday	7	0
Saturday	0	4

Vijay is paid a basic wage of £10.00 per hour, and is paid a premium of £5.00 per hour for all overtime hours. The company takes 30% of gross pay, at source, in respect of the required statutory deductions.

TASKS

Calculate:

- i Vijay's gross pay [4]
- ii Vijay's net pay [2]
- b) Explain the benefits of a PBR (payment by results) system of remuneration. [8]
- c) An organisation buys a machine for £20,000 on 1 January 2014. It depreciates the machine at 20% per annum using the reducing balance method.

TASK

Calculate the net book value of the machine as at 31 December 2016. [6]

4. You work as an accountant for a production company which is about to bring a new product to the market. Original budgeted data is as follows:

Sales: 100,000 items at £150 each.

Variable costs per item: £

Direct material 30

Direct wages 20

Overheads 40

The associated fixed overheads are estimated at £2,500,000.

The company has the capacity to make 130,000 items without increasing the cost of fixed overheads.

There are a number of proposals/suggested alternatives to consider.

Proposal 1: Increase the selling price by 10%; improve the product quality by spending an extra £5 per item on direct material. The expected sales would then be 120,000 items.

Proposal 2: Decrease the selling price to £142 per item, and sell 126,000 items.

Proposal 3: Increase the selling price to £155, and also spend £150,000 extra on marketing, and sell 110,000 items.

TASKS

- a) Calculate the profit for the original budget. [3]
 - b) Calculate the break-even point for the original budget. [2]
 - c) Calculate the profit AND break-even point for Proposal 1. [4]
 - d) Calculate the profit AND break-even point for Proposal 2. [4]
 - e) Calculate the profit AND break-even point for Proposal 3. [4]
 - f) Explain briefly which of the 4 plans/proposals you would recommend. [3]
5. Write notes on FOUR of the following:
- a) The sources of finance available to a sole trader
 - b) A cash budget
 - c) Bookkeeping
 - d) The role of a financial accountant
 - e) The basic purpose of budgetary control
 - f) Accounting standards [5 each]