



ACCOUNTING

Tuesday 7th June 2022

Time allowed

Three hours

Instructions

- Ensure that you pay particular attention to words in **bold**.
- Write the question number next to each answer in your answer booklet.
- You are **not** required to rewrite the question in your answer booklet.

Information

- Different questions may carry a different number of marks.
- Marks for each question are shown in [].

Advice

- Read each question carefully before you start to answer it.
- Use the full time permitted and check all your answers.

Materials

- Notes or books are **not** permitted.
- Non-programmable calculators are permitted.



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ANSWER FOUR QUESTIONS IN TOTAL
ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS

1. The information in Table 1 refers to the trial balance of a limited company.

Table 1: Trial Balance at 31st May 2022

	Dr	Cr
	£	£
Sales		2,000,000
Purchases	1,210,000	
Inventory (1 st June 2021)	54,000	
Accounts receivable	100,000	
Provision for doubtful debts (1 st June 2021)		2,000
Accounts payable		43,000
Business rates and insurance	55,000	
Communication expenses	38,000	
Energy costs	60,000	
Marketing expenses	90,000	
Payroll costs	229,000	
Debenture interest paid	5,000	
Buildings at cost	600,000	
Vehicles at cost	130,000	
Vehicle depreciation (1 st June 2021)		50,000
Bad debts written off in the year	3,000	
Bank	25,000	
Cash	1,000	
£1 Ordinary share capital		200,000
5% Debentures		100,000
Retained profit (1 st June 2021)		205,000
	2,600,000	2,600,000

Notes at 31st May 2022:

- Inventory is valued at £60,000
- Business rates prepaid amounted to £6,000
- Payroll costs owing amounted to £10,000
- The directors have reviewed the aged debtor schedule and have decided to adjust the provision for doubtful debts to £3,000
- The depreciation policy for vehicles is 25% on cost
- Corporation tax is estimated at £41,000

- (a) Prepare the limited company's income statement (trading and profit and loss account) for the year ended 31st May 2022 from the information provided in Table 1. [13 marks]
- (b) Prepare the limited company's position statement (balance sheet) at 31st May 2022 from the information provided in Table 1. [12 marks]
- (c) Calculate the current ratio from the information provided in Table 1. [2 marks]
- (d) Calculate the acid test ratio from the information provided in Table 1. [2 marks]
- (e) The liquidity ratios for the previous accounting year were:
- Current ratio: 2.5:1
 - Acid test: 1.1:1
- Analyse the liquidity position of the limited company at 31st May 2022. [5 marks]
- (f) Explain the importance of maintaining an efficient stock control system. [6 marks]

2. The data in Table 1 relates to two organisations (Organisation A and Organisation B) which are in the same industry sector.

Table 2

Organisation	A	B
	£000	£000
Sales (all on credit)	600	900
Cost of sales	300	375
Total expenses	120	220

For Organisation A and for Organisation B:

- Calculate the gross profit percentages. [4 marks]
- Calculate the net profit percentages. [4 marks]
- Calculate the expenses to sales ratio percentages. [4 marks]
- Suggest which of the two organisations is the most successful, including reasons for your suggestion. [4 marks]
- Outline the benefits of using financial/performance indicators. [4 marks]

3. (a)

Table 3: William's Timesheet

	Basic time (hours)	Overtime (hours)
Monday	8	1
Tuesday	8	2
Wednesday	8	0
Thursday	8	2
Friday	8	0
Saturday	0	3

William is paid a basic wage of £12.00 per hour and is paid a premium of £4.00 per hour for all overtime hours. The organisation takes 20% of gross pay, at source, in respect of the required statutory deductions.

- Calculate William's gross pay using the data in Table 3. [4 marks]
 - Calculate Williams's net pay using the data in Table 3. [2 marks]
- Explain the benefits of a payment by results (PBR) system of remuneration. Use examples to support your explanation. [8 marks]
 - Explain the purpose of voluntary deductions. Use an example to support your explanation. [6 marks]

4. Describe each of the following in the context of accounting:

- The sources of finance available to a sole trader
- Bookkeeping
- The role of a financial accountant
- Accounting standards

[20 marks]

5. The data in Table 4 shows the original budgeted data for a new product being brought to market by a production company.

Table 4

Sales	120,000 items at £130 each
Variable costs per item:	£
Direct material	30
Direct wages	20
Overheads	60

- The associated fixed overheads are estimated at £2,000,000.
- The company has the capacity to make 140,000 items without increasing the cost of fixed overheads.

There are three alternative proposals to the original budgeted data:

Proposal 1: Increase the selling price by 10% and improve the product quality by spending an extra £8 per item on direct material. The expected sales would then be 105,000 items.

Proposal 2: Decrease the selling price to £120 per item and sell 136,000 items.

Proposal 3: Increase the selling price to £140 per item, spend £300,000 extra on marketing and sell 110,000 items.

- (a) Calculate the profit for the original budget from the information in Table 4. [3 marks]
- (b) Calculate the break-even point for the original budget from the information in Table 4. [2 marks]
- (c) Calculate the profit for Proposal 1. [4 marks]
- (d) Calculate the profit for Proposal 2. [4 marks]
- (e) Calculate the profit for Proposal 3. [4 marks]
- (f) Suggest which of the four proposals you would recommend to the company including reasons for your suggestion. [3 marks]

END OF QUESTIONS