



ICM

SEPTEMBER 2016

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 of a company called WGG Ltd and have just taken out the trial balance as at 31 August 2016:

	£dr	£cr
£1 Ordinary share capital		200,000
5% Preference shares		100,000
Profit and loss account (01 09 15)		102,000
Long-term bank loan		60,000
Sales		1,840,000
Purchases	1,210,000	
Inventory (01 09 15)	83,000	
Accounts receivable	76,000	
Prov. for doubtful debts (01 09 15)		5,000
Accounts payable		53,000
Business rates	46,000	
Insurances	44,000	
Energy costs	47,000	
Advertising	38,000	
Audit fee	8,000	
Payroll costs	173,000	
Loan interest paid	5,000	
Communication expenses	22,000	
Buildings at cost	500,000	
Equipment at cost	150,000	
Equipment depreciation (01 09 15)		50,000
Bank	6,000	
Cash	2,000	
	-----	-----
	2,410,000	2,410,000
	=====	=====

Notes at 31 August 2016:

- Inventory was valued at £88,000
- Advertising prepaid amounted to £2,000
- Payroll costs owing amounted to £8,000
- Energy costs owing amounted to £5,000
- The directors have decided to adjust the provision for doubtful debts to £7,000
- The equipment is to be depreciated by 25% pa on cost
- The directors wish to provide £36,500 for taxation
- The directors have declared the preference dividend
- The ordinary share dividend will be 10 pence per share

Question 1 continues overleaf

TASKS

- a) Prepare the income statement (trading and profit and loss account) for the year ended 31 August 2016. [13]
- b) Prepare the position statement (balance sheet) as at 31 August 2016. [12]
- c) Explain the following terms:
 - i Trial balance
 - ii Accounting standards
 - iii Ordinary share capital [5 each]

2. A business makes a single product. The business plans to make and sell 100,000 units in the next budget year. It has the capacity to make up to 135,000 units without incurring additional fixed cost expenditure. Details of budgeted costs and revenues are as follows:

	£
Direct material cost per unit	35
Direct wage cost per unit	20
Variable overhead cost per unit	50
Selling price per unit	175
Total fixed cost	3,000,000

TASKS

- a) Calculate the existing budgeted profit. [3]
- b) Calculate the existing budgeted break-even point. [2]
- c) Calculate the profit if the selling price was set at £190 and 92,500 units made and sold. [3]
- d) Calculate the profit if the selling price was set at £170 and 120,000 units made and sold. [3]
- e) Calculate the profit if the quality and look of the product was improved by spending £10 more per unit, and spending £75,000 more on advertising; and then making and selling 125,000 units at a price of £195 each. [5]
- f) Sketch a break-even chart based on the original budgeted data. [4]

3. The following information relates to the time sheet of Brita:

	Basic time	Overtime
Monday	7 hours	2.0 hours
Tuesday	7 hours	2.0 hours
Wednesday	7 hours	2.0 hours
Thursday	7 hours	1.5 hours
Friday	7 hours	nil
Saturday	nil	3.0 hours

Brita earns a basic rate of £12 per hour and is paid overtime at time and a half (i.e. 50% more per hour than the basic rate).

Total statutory deductions amount to 30% of gross pay.

TASKS

- a) Calculate Brita's gross pay. [3]
- b) Calculate Brita's net pay. [2]
- c) Explain the principal (inventory) stock levels used in a stock control system. [9]
- d) Explain the importance of the bookkeeping system. [6]

4. The following data relates to two different companies, which operate in the same business sector:

	A	B
	£000	£000
Sales in year (all on credit)	4,800	7,900
Cost of sales for the year	2,800	3,400
Total expenses for the year	1,300	1,600
	-----	-----
Opening inventory (stock) value	200	220
Closing inventory (stock) value	220	240
Closing debtors (accounts receivable)	360	500
Closing total current assets	690	750
Closing total current liabilities	360	500

TASKS

- a) For EACH company calculate the following:

- i Gross profit to sales percentage
- ii Net profit to sales percentage
- iii Expenses to sales percentage
- iv Stock turnover in days
- v Debtor collection period
- vi Current ratio
- vii Acid test ratio

[2 each]

- b) Compare the financial performance of the two companies.

[6]

5. Write notes on FOUR of the following:

- a) A cash budget
- b) The benefits of using financial ratios
- c) The sources of finance available to a sole trader
- d) Depreciation of fixed assets
- e) The payroll process
- f) The prudence concept
- g) 'Users' of financial statements

[5 each]