



ICM

SEPTEMBER 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 of a company called EVP Ltd and have just taken out the trial balance as at 31 August 2017:

	£dr	£cr
£1 Ordinary share capital		200,000
5% Preference shares		100,000
Profit and loss account (01 09 16)		264,000
Long-term bank loan		60,000
Sales		2,010,000
Purchases	1,420,000	
Inventory (01 09 16)	82,000	
Accounts receivable	88,000	
Prov. for doubtful debts (01 09 16)		5,000
Accounts payable		64,000
Business rates	56,000	
Insurances	49,000	
Energy costs	67,000	
Marketing	58,000	
Audit fee	9,000	
Payroll costs	191,000	
Loan interest paid	5,000	
Communication expenses	28,000	
Buildings at cost	500,000	
Equipment at cost	200,000	
Equipment depreciation (01 09 16)		60,000
Bank	8,000	
Cash	2,000	
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	2,763,000	2,763,000
	=====	=====

Notes at 31 August 2017:

- Inventory was valued at £81,000
- Insurance prepaid amounted to £3,000
- Payroll costs owing amounted to £8,000
- Energy costs owing amounted to £6,000
- The directors have decided to adjust the provision for doubtful debts to £8,000
- The equipment is to be depreciated by 25% pa on cost
- The directors wish to provide £12,000 for taxation
- The directors have declared the preference dividend

Question 1 continues overleaf

TASKS

- a) Prepare the income statement (trading and profit and loss account) for the year ended 31 August 2017. [13]
- b) Prepare the position statement (balance sheet) as at 31 August 2017. [12]
- c) Explain the following terms:
 - i The principal stock levels
 - ii Statutory deductions from wages
 - iii Depreciation of fixed assets [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	25
Variable overhead cost per unit	60
Selling price per unit	180
Total fixed cost	3,400,000

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 95,000 units made and sold. [3]
- d) Calculate the profit if the selling price was set at £175, and 120,000 units made and sold. [3]
- e) Calculate the profit if the packaging and quality of the product was improved by spending £11 more per unit on material; and spending £115,000 more on advertising; and then making and selling 122,000 units at a price of £195 each. [5]
- f) Sketch a break-even chart based on the original budgeted data. [4]

3. The following 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	3,700
Total expenses for the year	1,200	1,600
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Opening inventory (stock) value	200	230
Closing inventory (stock) value	230	240
Closing debtors (accounts receivable)	380	500
Closing total current assets	690	760
Closing total current liabilities	390	510

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]

4.
 - a) Explain the benefits of budgetary control. [12]
 - b) Outline the sources of business finance available to a small limited company. [8]

5. Write notes on FOUR of the following:

- a) A cash budget
- b) The principal 'users' of accounting information
- c) The role of an external auditor
- d) The prudence concept
- e) The benefits of using an overdraft to 'cover' short-term cash deficits
- f) A trim balance [5 each]